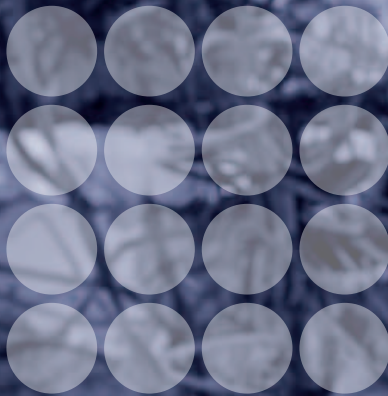


Half Year Report 2012

Report for the six months to June 30, 2012



About Zurich

Zurich is a leading multi-line insurance provider with a global network of subsidiaries and offices. Our 60,000 employees deliver a wide range of general insurance and life insurance products and services for private individuals, small businesses, mid-sized and large corporate customers, including multinational corporations, in over 170 countries.

Our mission is to help our customers understand and protect themselves from risk. Our ambition is to be the best global insurer as measured by our shareholders, customers and employees.

Contents

Message from the Chairman and CEO	2
Operating and financial review	4
Financial highlights	5
Consolidated financial statements	30
Embedded value report	94
Shareholder information	130



Message from the Chairman and CEO

Discipline and strategic focus enabled us to deliver strong financial results for the first half of the year.



Dr. Josef Ackermann and Martin Senn

Dear Shareholder,

We are pleased to present strong financial results for the first half of 2012, achieved in a challenging environment. Business operating profit over the first half of the year was USD 2.5 billion, a 17 percent increase compared with the same period in 2011. Net income attributable to shareholders was USD 2.2 billion during the first half of the year, up 13 percent. Business operating profit after tax return on common shareholders' equity during the same period was 12.1 percent, up from 10.6 percent in the first half of 2011.

This growth in profit was the outcome of our disciplined approach to underwriting and continued focus on the insurance products that enable us to maintain a resilient

performance in mature markets. Business volumes continued to improve in our target growth markets, including Latin America, the Middle East and Asia-Pacific.

General Insurance: Growth in International Markets and North America

General Insurance business operating profit increased by USD 515 million to USD 1.6 billion in the first six months of 2012, a 46 percent increase in U.S. dollar terms or 49 percent in local currency terms. The strong result reflected a disciplined approach to underwriting and expense management. In addition, General Insurance benefited from the less severe catastrophe and weather related losses compared with the same period in 2011.

Gross written premiums and policy fees in General Insurance increased by USD 278 million to USD 19.2 billion, a 1 percent increase in U.S. dollar terms or 5 percent on a local currency basis. Overall premium growth was strong, particularly in International Markets, including Malaysia and Latin America, as well as in North America, although European premium volumes continued to decline as a result of low levels of economic activity and targeted re-underwriting actions in some portfolios. The business achieved average rate increases of 3.5 percent while improving customer retention and increasing new business revenues.

Global Life: Continued progress against strategic objectives

Global Life business operating profit decreased by USD 77 million to USD 651 million, 11 percent lower in U.S. dollar terms or 7 percent on a local currency basis. Improvements in the expense, risk and other profit margins were more than offset by the impact of lower deferrals of acquisition expense and the prevailing low interest rate environment.

“We have a strong capital position, with shareholders' equity increasing to USD 32.4 billion in the first half of 2012.

Gross written premiums, policy fees and insurance deposits in Global Life increased by USD 1.5 billion to USD 14.7 billion, an 11 percent increase in U.S. dollar terms or 18 percent on a local currency basis. Global Life recorded strong organic growth in Latin America as well as in North America and the UK. The business continued to make progress against its strategic objectives of geographical diversification outside Europe, a shift from traditional savings products toward protection and unit-linked business, and leveraging its global strength in Corporate Life & Pensions.

Farmers Management Services increases business operating profit

Farmers business operating profit decreased by USD 128 million to USD 601 million, or by 18 percent, due to a loss recorded by Farmers Re. Farmers Management Services business operating profit increased by USD 38 million to USD 711 million, or by 6 percent, as a result of an increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group.

Gross written premiums and policy fees in Farmers Re registered a 49 percent increase to USD 2.2 billion, due to an increase from 12 percent to 20 percent in the All Lines quota share reinsurance agreement with the Farmers Exchanges and growth of 4 percent in gross written premiums in the Farmers Exchanges. The loss of USD 110 million in Farmers Re mainly resulted from the second consecutive year of major weather-related losses, without the favorable prior year development that benefited Farmers Re in the first half of 2011.

Resilience and commitment in challenging times

Zurich is a resilient, well-capitalized business with an effective strategy. Against a weakening global economic backdrop, we recorded a strong performance for the first half of 2012. We have a strong capital position, with shareholders' equity increasing to USD 32.4 billion in the first half of 2012.

Zurich's financial results are a tribute to the commitment, expertise and customer service provided by our 60,000 people worldwide. We thank them for their hard work. We would also like to thank our customers, whose trust is the foundation of our success. Zurich will be there for them, delivering what matters when it matters. Finally, we would like to thank you, our shareholders, for your continuing commitment and support, which is particularly important to us in these challenging times.



Dr. Josef Ackermann
Chairman of the Board of Directors



Martin Senn
Chief Executive Officer

Operating and financial review

The Operating and financial review is the management analysis of the business performance of Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd) and its subsidiaries, collectively the Group, for the six months ended June 30, 2012, compared with the same period of 2011. It also explains key aspects of the Group's financial position as of June 30, 2012 compared with December 31, 2011.

In summary, the Group delivered a strong set of financial results, through its disciplined approach and strategic focus.

Contents

Financial highlights	5
Performance overview	6
General Insurance	8
Global Life	13
Farmers	17
Other Operating Businesses	19
Non-Core Businesses	19
Investment position and performance	20
Insurance and investment contract liabilities	23
Indebtedness	26
Capitalization	27
Cash flows	28
Currency translation impact	29

The information contained within the Operating and financial review is unaudited and presents the consolidated results of the Group for the six months ended June 30, 2012, and 2011 and the financial position as of June 30, 2012 and December 31, 2011. All amounts are shown in U.S. dollars and rounded to the nearest million unless otherwise stated with the consequence that the rounded amounts may not add to the rounded total in all cases. All ratios and variances are calculated using the underlying amount rather than the rounded amount. This document should be read in conjunction with the Annual Report 2011 of the Group and with its unaudited Consolidated financial statements for the six months ended June 30, 2012. Certain comparative figures have been restated, as set out in note 1 of the unaudited Consolidated financial statements. Details of the financial results from the dates of acquisition to March 31, 2012, for the Latin American insurance operations of Banco Santander S.A. (Santander acquired insurance businesses) and for other acquisitions and divestments are set out in note 2 of the unaudited Consolidated financial statements.

In addition to the figures stated according to the International Financial Reporting Standards (IFRS), the Group uses business operating profit (BOP) measures and other performance indicators to enhance the understanding of its results. These additional measures should be viewed as complementary to, and not a substitute for, the figures determined according to the IFRS. For a reconciliation of BOP to net income after income taxes see note 15 of the unaudited Consolidated financial statements.

Financial highlights

in USD millions, for the six months ended June 30, unless otherwise stated	2012	2011	Change ¹
Business operating profit	2,506	2,141	17%
Net income attributable to shareholders	2,218	1,971	13%
General Insurance gross written premiums and policy fees	19,153	18,876	1%
Global Life gross written premiums, policy fees and insurance deposits	14,718	13,267	11%
Farmers Management Services management fees and other related revenues	1,420	1,375	3%
Farmers Re gross written premiums and policy fees	2,211	1,481	49%
General Insurance business operating profit	1,630	1,115	46%
General Insurance combined ratio	94.9%	99.3%	4.4 pts
Global Life business operating profit	651	728	(11%)
Global Life new business annual premium equivalent (APE)	1,793²	1,899	(6%)
Global Life new business margin, after tax (as % of APE)	23.6%²	26.9%	(3.3 pts)
Global Life new business value, after tax	424²	511	(17%)
Farmers business operating profit	601	729	(18%)
Farmers Management Services gross management result	688	651	6%
Farmers Management Services managed gross earned premium margin	7.4%	7.2%	0.2 pts
Average Group investments	196,592	200,636	(2%)
Net investment result on Group investments	4,096	4,216	(3%)
Net investment return on Group investments ³	2.1%	2.1%	–
Total return on Group investments ³	3.2%	1.7%	1.4 pts
Shareholders' equity ⁴	32,421	31,636	2%
Swiss Solvency Test capitalization ratio ⁵	185%	225%	(40 pts)
Diluted earnings per share (in CHF)	13.99	12.11	16%
Book value per share (in CHF) ⁴	209.50	203.15	3%
Return on common shareholders' equity (ROE)	13.8%	12.6%	1.3 pts
Business operating profit (after tax) return on common shareholders' equity (BOPAT ROE)	12.1%	10.6%	1.5 pts

¹ Parentheses around numbers represent an adverse variance.

² Includes no contribution from the Santander acquired insurance businesses and the acquisition of Malaysian Assurance Alliance Berhad (MAA), now known as Zurich Insurance Malaysia Berhad.

³ Not annualized and calculated on average Group investments.

⁴ As of June 30, 2012 and December 31, 2011, respectively.

⁵ As filed with the Group's regulator, the Swiss Financial Market Supervisory Authority (FINMA), for the periods ended December 31, 2011 and June 30, 2011, respectively, based on the results for the Group on a consolidated basis, subject to FINMA's review and approval of the Group's internal model.

Operating and financial review *continued*

Performance overview for the six months to June 30, 2012

The Group continued to deliver a strong set of financial results through its disciplined approach and strategic focus. This was supported by the Group's well diversified business and highlighted by the improved performance of the Group's biggest segment, General Insurance. The Group maintained its strong profitability through its ongoing focus on pricing discipline and portfolio management, reflected in an excellent underwriting performance.

The Group's capital and solvency positions remain strong, underpinned by its continued focus on risk management. Despite ongoing volatile financial markets, the Group successfully placed several debt instruments in the first six months of 2012. Shareholders' equity has increased by USD 784 million to USD 32.4 billion after recording the total cost of USD 2.8 billion for the dividend of CHF 17.00 per share approved by shareholders at the Annual General Meeting on March 29, 2012.

The recent acquisitions continue to transition into "business as usual" and support the Group's strategic objective to develop its business in emerging markets where the outlook for economic growth remains positive. For the period since acquisition until March 31, 2012, the Santander acquired insurance businesses reported a business operating profit of USD 58 million in the core business segments of the Group, after deduction of non-controlling interests, but before financing costs. Adjustments to the Group's liability for future earn-out payments amounting to USD 15 million reduced business operating profit included in core business segments of the Group to USD 43 million. Gross written premiums and insurance deposits totaled USD 2.3 billion and these businesses contributed very strong cash flows to the Group.

Business operating profit increased by USD 366 million to USD 2.5 billion, or by 17 percent in U.S. dollar terms and 19 percent on a local currency basis.

- **General Insurance** business operating profit increased by USD 515 million to USD 1.6 billion, or by 46 percent in U.S. dollar terms and 49 percent on a local currency basis. Improvement in the underlying underwriting results continued to reflect the disciplined underwriting and expense management which is the basis for the General Insurance strategy. The improvement in profitability also reflected significantly lower levels of losses related to catastrophe and weather-related events compared with the same period of 2011 following the natural disasters in Japan, New Zealand, Australia and North America. Underwriting improvements and lower levels of catastrophe and weather-related losses more than offset the continued decline in investment income as yields further decreased.
- **Global Life** business operating profit decreased by USD 77 million to USD 651 million, or by 11 percent in U.S. dollar terms and 7 percent on a local currency basis. Improvements in the expense, risk and other profit margins were offset by a reduction in the net investment margin and a lower net contribution from the impact of acquisition deferrals. The reduction in the investment margin was primarily driven by lower interest rates which had an effect on the traditional in-force book in Germany, indirectly influenced by the "Zinszusatzreserve" requirements introduced in 2011.
- **Farmers** business operating profit decreased by USD 128 million to USD 601 million, or by 18 percent, due to the loss from Farmers Re. **Farmers Management Services** business operating profit increased by USD 38 million to USD 711 million, or by 6 percent, driven by the increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. **Farmers Re** business operating profit deteriorated by USD 165 million to a loss of USD 110 million, mainly reflecting the second consecutive year of significant weather-related losses and the absence of favorable prior year loss development compared with the same period of 2011.

Other Operating Businesses business operating loss increased by USD 72 million to USD 469 million, mainly driven by the absence of favorable impacts of foreign currency movements compared with the first six months of 2011.

Non-Core Businesses reported a business operating profit of USD 93 million compared with a business operating loss of USD 34 million in the same period of 2011. The improvement resulted mainly from positive developments from Other run-off businesses and Other centrally managed businesses.

The Group's business volumes, comprising gross written premiums, policy fees, insurance deposits and management fees, increased by USD 2.5 billion to USD 37.5 billion, or by 7 percent in U.S. dollar terms and by 12 percent on a local currency basis. Volume growth has been achieved in all core business segments and developed as follows:

- **General Insurance** gross written premiums and policy fees increased by USD 278 million to USD 19.2 billion, or by 1 percent in U.S. dollar terms and 5 percent on a local currency basis. Selective and profitable growth remains a key focus area and leading premium indicators are favorable even as average rates increased by 4 percent. Overall premium growth was strong, particularly in International Markets through both organic growth and acquisitions, as well as in North America, while European results continued to be affected by lower levels of economic activity.
- **Global Life** gross written premiums, policy fees and insurance deposits increased by USD 1.5 billion to USD 14.7 billion, or by 11 percent in U.S. dollar terms and 18 percent on a local currency basis, benefiting from the Santander acquired insurance businesses, as well as higher volumes of single premium products in Corporate Life & Pensions and Private Banking Client Solutions.
- **Farmers Management Services** management fees and other related revenues increased by USD 45 million to USD 1.4 billion, or by 3 percent, driven by the 3 percent increase in gross earned premiums in the Farmers Exchanges. The 49 percent increase to USD 2.2 billion in gross written premiums of **Farmers Re** reflected the increase in the All Lines quota share reinsurance agreement with the Farmers Exchanges (All Lines agreement) and the 4 percent gross written premiums growth in the Farmers Exchanges.

Net income attributable to shareholders increased by USD 247 million to USD 2.2 billion, or by 13 percent, mainly as a result of the higher business operating profit. In the first six months of 2012, net capital gains on investments from active management, higher market valuations and lower impairments were overall higher compared with those in the same period of 2011, which included the gain from the sale of part of the Group's share in New China Life Insurance Co. Ltd. The **shareholders' effective tax rate** was 22.7 percent for the six month ended June 30, 2012, compared with 22.6 percent for the same period of 2011 and 24.1 percent for the year ended December 31, 2011.

ROE of 13.8 percent increased by 1.3 percentage points while **BOPAT ROE** of 12.1 percent increased by 1.5 percentage points, primarily due to the increase in net income attributable to shareholders and business operating profit respectively. **Diluted earnings per share** increased by 16 percent to CHF 13.99 for the six months ended June 30, 2012, compared with CHF 12.11 for the same period of 2011. The higher increase compared with the increase in net income attributable to shareholders is due to the currency translation impact, as the U.S. dollar has on average been stronger against the Swiss franc.

Operating and financial review *continued*

General Insurance

in USD millions, for the six months ended June 30	2012	2011	Change
Gross written premiums and policy fees	19,153	18,876	1%
Net earned premiums and policy fees	14,218	14,322	(1%)
Insurance benefits and losses, net of reinsurance	(9,602)	(10,429)	8%
Net underwriting result	727	104	nm
Net investment income	1,323	1,426	(7%)
Net non-technical result (excluding items not included in BOP)	(423)	(432)	2%
Business operating profit	1,630	1,115	46%
Loss ratio	67.5%	72.8%	5.3 pts
Expense ratio	27.4%	26.5%	(0.9 pts)
Combined ratio	94.9%	99.3%	4.4 pts

in USD millions, for the six months ended June 30	Business operating profit (BOP)		Combined ratio	
	2012	2011	2012	2011
Global Corporate	498	60	90.5%	107.0%
North America Commercial	517	426	95.3%	99.3%
Europe	515	722	95.3%	93.4%
International Markets	62	(141)	99.3%	113.0%
GI Global Functions including Group Reinsurance	38	47	nm	nm
Total	1,630	1,115	94.9%	99.3%

Business operating profit increased by USD 515 million to USD 1.6 billion. The business operating profit for the first six months of 2012 continued to benefit from improved underwriting performance reflected in a lower underlying loss ratio, in line with the Group's strategy to defend profit margins. The result also benefited from less severe catastrophe-related and weather-related losses than those experienced during the same period of 2011 in Japan, New Zealand, Australia and North America, although the current results included an elevated frequency of weather-related losses, particularly in Europe. Investment income decreased by USD 103 million or by 7 percent reflecting continued declining yields. Non-technical expenses were virtually flat compared with the same period of 2011.

Gross written premiums and policy fees increased by USD 278 million to USD 19.2 billion, or by 1 percent in U.S. dollar terms and 5 percent on a local currency basis. The General Insurance business continued to drive profitability in underwriting and has been able to achieve average rate increases of 4 percent. Premiums increased in the mature North American market and, while part of this increase was attributable to adjustments to premiums for prior year policies as initial estimated insured risks were increased reflecting the improving U.S. economy, there have also been improvements in both customer retention and new business. In Europe, premium volumes continue to decline as a result of the economic environment in all significant markets as well as profit improvement efforts in selected portfolios such as personal lines motor. In International Markets, premium growth was driven by the recent acquisitions in Malaysia and Latin America, and by organic growth in existing businesses.

The **net underwriting result** increased by USD 623 million to USD 727 million, reflected in the improvement of 4.4 percentage points in the combined ratio to 94.9 percent. The underwriting result benefited from the decreased severity of major catastrophic events experienced during the first six months of 2011, although the first six months of 2012 included European weather-related losses and the impact of the Italian earthquakes. The underlying loss ratio continued to improve following the sustained increase in rates and focused actions to defend profit margins. The success of these efforts is apparent across the majority of the portfolio. In addition, the Santander acquired insurance businesses improved the overall loss ratio by 0.5 percentage points. The overall expense ratio deteriorated by 0.9 percentage points to 27.4 percent driven by a higher commission ratio due to business mix, including the Santander acquired insurance businesses, and a change in reinsurance programs in Global Corporate which lowered ceding commissions. The other underwriting expense ratio was slightly higher than in the first six months of 2011 mainly as a result of continued investment in International Markets and higher pension expenses as pension calculation assumptions have changed to recognize the continuing difficult economic environment, partially offset by continued execution of the strategic goal to reduce the expense base in mature markets.

Global Corporate

in USD millions, for the six months ended June 30	2012	2011	Change
Gross written premiums and policy fees	4,720	4,714	–
Net underwriting result	257	(187)	nm
Business operating profit	498	60	nm
Loss ratio	70.5%	87.4%	16.9 pts
Expense ratio	20.0%	19.6%	(0.4 pts)
Combined ratio	90.5%	107.0%	16.5 pts

Business operating profit increased by USD 438 million to USD 498 million primarily as a result of the improvement in the underwriting result. Investment income also increased compared with the same period of 2011 as a result of an increase in the invested asset base; however, this was more than offset by higher non-technical expenses as a result of losses on foreign currency transactions compared with gains in the same period of 2011.

Gross written premiums and policy fees increased by USD 6 million to USD 4.7 billion, flat in U.S. dollar terms, but 3 percent higher on a local currency basis. Global Corporate experienced growth in key strategic markets in Asia-Pacific and in the Middle East, and in certain market segments in international program business, European middle markets and financial lines. These improvements were offset by lower retention levels in less profitable portfolios, such as international property and energy, and U.S. domestic casualty where rate increases were applied to improve profitability. Focus remains on disciplined underwriting and pricing with average rate increases of 4 percent across all regions, and in particular an overall 7 percent rate increase achieved in North America, an increase of 4 percentage points compared with the same period of 2011. European exposures continued to decrease as a result of the continued reduced economic activity in most countries.

The **net underwriting result** improved by USD 444 million to a profit of USD 257 million reflected in the 16.5 percentage point improvement in the combined ratio to 90.5 percent. While the result for the first six months of 2012 included weather-related losses, the impact was relatively benign compared with the major catastrophic events that occurred during the same period of 2011. The favorable development in the loss ratio also included an improved underlying loss ratio reflecting the impact of rate increases, segmentation strategies and re-underwriting actions aimed at improving overall profitability. The expense ratio was slightly higher with a lower other underwriting expense ratio offset by a higher commission ratio due to a change in reinsurance programs which reduced ceding commissions and by increased volumes of product sales that attract higher levies in the U.S.

Operating and financial review *continued*

North America Commercial

in USD millions, for the six months ended June 30	2012	2011	Change
Gross written premiums and policy fees	5,069	4,852	4%
Net underwriting result	169	26	nm
Business operating profit	517	426	21%
Loss ratio	66.3%	69.2%	2.9 pts
Expense ratio	29.0%	30.1%	1.1 pts
Combined ratio	95.3%	99.3%	4.0 pts

Business operating profit increased by USD 91 million to USD 517 million, or by 21 percent. This increase was driven by a substantial improvement in the underwriting result and lower non-technical expenses. These improvements were partially offset by lower investment income from the impact of a continued decline in investment yields and capital repatriation to the Group.

Gross written premiums and policy fees increased by USD 217 million to USD 5.1 billion, or by 4 percent. Premium growth is attributable to the improving U.S. economy and a market environment that while highly competitive, continued to support rate increases. Despite increasing competitive pressures, the North America Commercial business continued to execute its rate-tiering strategies and has achieved average rate increases of 4 percent, while continuing to realize benefits from strategic growth initiatives in targeted business segments such as real estate, auto warranty, certain specialty products, program business and captives. Premiums also benefited from higher premium adjustments for prior year policies as initial estimated insured risks increased following an improved U.S. economy. Growth has been tempered somewhat by the effects of re-underwriting efforts and decisions to exit unprofitable business segments in the North American market.

The **net underwriting result** increased by USD 142 million to USD 169 million, as reflected in the improvement of 4.0 percentage points in the combined ratio to 95.3 percent. The improvement in the underwriting result was driven by the loss ratio which has improved by 2.9 percentage points compared with the same period of 2011 and reflected favorable underlying property results, relatively lower weather-related losses, increasing rates and the impact of the continued rate-tiering and portfolio re-shaping efforts. The underwriting result also benefited from the earned effect of increases to premium for prior year policies. These improvements were partially offset by a lower level of favorable development on reserves established in prior years and deterioration in the workers' compensation line of business where increasing loss trends continued, but where increased rates and re-underwriting actions continued to be implemented. The expense ratio improved by 1.1 percentage points due to lower commissions resulting from a more favorable mix of business as well as efforts to improve operational efficiency.

Europe

in USD millions, for the six months ended June 30	2012	2011	Change
Gross written premiums and policy fees	6,924	7,480	(7%)
Net underwriting result	280	424	(34%)
Business operating profit	515	722	(29%)
Loss ratio	68.9%	68.2%	(0.7 pts)
Expense ratio	26.4%	25.2%	(1.2 pts)
Combined ratio	95.3%	93.4%	(1.9 pts)

Business operating profit decreased by USD 207 million to USD 515 million, or by 29 percent in U.S. dollar terms and 26 percent on a local currency basis. The decrease was driven by the reduced underwriting result, lower investment income due to both lower yields and a reduced asset base, and slightly higher non-technical expenses caused by foreign currency exchange losses.

Gross written premiums and policy fees decreased by USD 556 million to USD 6.9 billion, or by 7 percent in U.S. dollar terms and 2 percent on a local currency basis. The lower volume was driven largely by an economic environment that remained challenging in many European countries and by actions taken for specific products in certain markets to improve overall profitability. These impacts were most visible in personal lines motor in the UK, Italy and Spain and in commercial liability in Germany. Overall average rate increases of 2 percent were achieved in the first six months of 2012.

The **net underwriting result** decreased by USD 144 million to USD 280 million, reflected in the increase in the combined ratio of 1.9 percentage points. The loss ratio increased by 0.7 percentage points following an increase in weather-related losses stemming from windstorm and freeze events in January and February that impacted most of the region and, more recently, flooding in the UK and hailstorms in Switzerland. The increase in weather related losses was partially offset by improvements in the underlying loss ratio as profit improvement strategies continue to benefit the result. In Germany, reserves established in prior years have been increased following continued analysis of claims on certain long-tail lines of business such as medical malpractice. The increase in the expense ratio of 1.2 percentage points mainly arose from increased pension expenses, particularly in the UK as pension calculation assumptions have changed to recognize the continuing difficult economic environment, as well as from higher commissions reflecting business mix changes.

Operating and financial review *continued*

International Markets

in USD millions, for the six months ended June 30	2012	2011	Change
Gross written premiums and policy fees	2,653	2,212	20%
Net underwriting result	14	(211)	nm
Business operating profit	62	(141)	nm
Loss ratio	62.1%	78.9%	16.8 pts
Expense ratio	37.2%	34.2%	(3.0 pts)
Combined ratio	99.3%	113.0%	13.7 pts

Business operating profit of USD 62 million improved by USD 203 million from a loss of USD 141 million in the same period of 2011, driven mainly by the absence of catastrophe losses in the underwriting result. An increase in investment income was generated by higher yields as well as a higher asset base driven by portfolio growth. Non-technical expenses increased reflecting continued investments at a regional level in International Markets.

Gross written premiums and policy fees increased by USD 441 million to USD 2.7 billion, or by 20 percent in U.S. dollar terms and 27 percent on a local currency basis. Growth in Latin America was 64 percent on a local currency basis, which benefited from the inclusion of the Santander acquired insurance businesses, as well as underlying growth in motor lines in Brazil, Mexico and Argentina together with a positive contribution from insurance product sales through retail outlets in Brazil. The Asia-Pacific region achieved growth of 10 percent on a local currency basis benefiting from the newly acquired business in Malaysia as well as from underlying growth in Japan and Australia.

The **net underwriting result** improved by USD 225 million to a profit of USD 14 million reflected in the 13.7 percentage point decrease in the combined ratio to 99.3 percent. The loss ratio improved by 16.8 percentage points to 62.1 percent reflecting the lower level of catastrophe experience compared with the significant events in Japan, New Zealand and Australia in the same period of 2011. However, this improvement was offset by higher losses in the first six months of 2012 related to the earthquake in Mexico, and lower levels of favorable development of reserves established in prior years, in particular following an inflation adjustment which increased the reserves for motor third party liability in Argentina. The higher expense ratio was mainly driven by higher commission rates applicable in the Santander acquired insurance businesses and the continuing investments at business level in International Markets.

Global Life

in USD millions, for the six months ended June 30	2012	2011	Change
Insurance deposits	8,039	7,174	12%
Gross written premiums and policy fees	6,679	6,092	10%
Net investment income on Group investments	2,009	2,082	(4%)
Insurance benefits and losses, net of reinsurance	(4,605)	(4,853)	5%
Business operating profit¹	651	728	(11%)
Total reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts (net reserves) ²	197,876	184,599	7%
Assets under management ^{2, 3}	236,593	219,749	8%
Net policyholder flows ⁴	889	1,155	(23%)

¹ Business operating profit for the first six months of 2012 included USD 28 million of profit from the Santander acquired insurance businesses, after deducting non-controlling interests and USD 12 million for adjustments to the liability for future earn-out payments, earned between the dates of acquisition and March 31, 2012. Details of the overall IFRS impact are set out in note 2 to the unaudited Consolidated financial statements.

² As of June 30, 2012, and December 31, 2011, respectively.

³ Assets under management comprise Group and unit-linked investments that are included in the Global Life balance sheet plus assets that are managed by third parties, on which the business earns fees.

⁴ Net policyholder flows are defined as the sum of gross written premiums and policy fees and deposits, less policyholder benefits.

New Business – highlights^{1, 2, 3}			
New business annual premium equivalent (APE)	1,793	1,899	(6%)
Present value of new business premiums (PVNBP)	15,863	15,631	1%
New business margin, after tax (as % of APE)	23.6%	26.9%	-3.3 pts
New business margin, after tax (as % of PVNBP)	2.7%	3.3%	-0.6 pts
New business value, after tax	424	511	(17%)

¹ New business on an Embedded Value basis for the first six months of 2012 does not include any amounts from the Santander acquired insurance businesses or MAA.

² In 2012 new business on an Embedded Value basis has been determined including a liquidity premium in the discount rate applied to the time value of options and guarantees, but with no restatement of the 2011 comparative figures.

³ A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011. This has a transitional impact over two years from the implementation date relating to renewals of business in-force at the date of the change. The renewed business contributed USD 39 million of new business value in the first six months of 2012 compared with USD 88 million in the same period of 2011.

Profit by source¹

in USD millions, for the six months ended June 30	New business		Business in-force		Total	
	2012	2011	2012	2011	2012	2011
Net expense margin	(720)	(772)	751	720	31	(52)
Net risk margin			355	348	355	348
Net investment margin			265	396	265	396
Other profit margins			13	(26)	13	(26)
BOP before deferrals	(720)	(772)	1,385	1,438	665	666
Impact of acquisition deferrals	611	697	(495)	(505)	116	192
BOP before interest, depreciation and amortization	(109)	(75)	890	933	781	859
Interest, depreciation and amortization			(139)	(168)	(139)	(168)
Non controlling interest	–	–	(47)	(14)	(47)	(14)
BOP before special operating items	(109)	(75)	704	751	595	677
Special operating items			56	52	56	52
Total	(109)	(75)	760	803	651	728

¹ See separate published glossary for an explanation of profit by source.

Operating and financial review *continued*

Business operating profit decreased by USD 77 million to USD 651 million, or by 11 percent in U.S. dollar terms and 7 percent on a local currency basis. Improvements in the expense, risk and other profit margins were offset by a reduction in the net investment margin and a lower net contribution from the impact of acquisition deferrals. The reduction in business operating profit mainly arose in Germany, which reported USD 89 million compared with USD 170 million in the first six months of 2011.

The net expense margin improved by USD 83 million, with one of the factors driving the improvement being the increased fee income arising from a shift towards unit-linked new business sales in Germany. The net risk margin improved by USD 7 million, benefiting from an increased proportion of protection new business sales. Other profit margins improved by USD 39 million to USD 13 million and included a positive result from the Santander acquired insurance businesses, before the effect of non-controlling interests. The reduction in investment margin of USD 131 million to USD 265 million was primarily driven by lower interest rates, particularly in the traditional in-force book in Germany which continued to be indirectly impacted by the "Zinszusatzreserve" requirements introduced in 2011. The impact of acquisition deferrals decreased by USD 76 million because of the combined effect of higher deferrals of fee income as well as a lower deferral of acquisition costs, resulting from a revision of actuarial assumptions in 2012 and the change in method for deferring commissions introduced as of September 2011.

Insurance deposits increased by USD 864 million to USD 8.0 billion, or by 12 percent in U.S. dollar terms and 19 percent on a local currency basis. A USD 1.2 billion increase relating to the Santander acquired insurance businesses was partially offset by a reduction in single premium business in Europe.

Gross written premiums and policy fees increased by USD 587 million to USD 6.7 billion, or by 10 percent in U.S. dollar terms and 16 percent on a local currency basis. A USD 884 million increase relating to the Santander acquired insurance businesses was also partially offset by a reduction in single premium business in Europe.

Net reserves increased by USD 13.3 billion, or by 7 percent in U.S. dollar terms and 18 percent on a local currency basis compared with December 31, 2011, with USD 11.1 billion of the increase relating to the Santander acquired insurance businesses. **Assets under management** increased by USD 16.9 billion, or by 8 percent in U.S. dollar terms and 19 percent on a local currency basis compared with December 31, 2011, with USD 12.7 billion of the increase relating to the Santander acquired insurance businesses. **Net policyholder flows** decreased by USD 266 million to USD 889 million with growth in North America and Latin America including USD 132 million relating to the Santander acquired insurance businesses, partially offset by a reduction of single premium business in Europe.

NBV, APE, NBM and BOP by region

in USD millions, for the six months ended June 30

	New business value, after tax (NBV)		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE) (NBM)		Business operating profit (BOP)	
	2012	2011	2012	2011	2012	2011	2012	2011
North America	50	22	62	50	81.0%	44.1%	113	127
Latin America ^{1,2}	37	33	154	138	23.9%	23.6%	54	30
Europe	214	269	1,260	1,322	17.0%	20.4%	417	502
<i>of which:</i>								
<i>United Kingdom</i>	98	73	596	536	16.5%	13.7%	155	149
<i>Germany</i>	19	82	224	274	8.3%	30.1%	89	170
<i>Switzerland</i>	7	13	120	75	6.2%	17.4%	135	127
<i>Ireland</i>	31	33	163	181	19.2%	18.3%	9	15
<i>Spain</i>	46	50	79	156	57.8%	31.7%	(1)	13
<i>Rest of Europe</i>	12	18	78	100	15.8%	17.9%	29	29
Asia-Pacific and Middle East ²	60	73	241	307	24.9%	23.8%	64	61
Other ³	63	114	76	83	83.0%	138.7%	3	8
Total	424	511	1,793	1,899	23.6%	26.9%	651	728

NBV, APE and NBM by pillar²

in USD millions, for the six months ended June 30

	New business value (NBV), after tax		New business annual premium equivalent (APE)		New business margin, after tax (as % of APE) (NBM)	
	2012	2011	2012	2011	2012	2011
Bank Distribution	60	94	211	318	28.5%	29.5%
IFA/Brokers	83	85	382	485	21.7%	17.4%
Agents	63	59	198	235	31.8%	25.1%
International/Expats	33	45	130	156	25.4%	28.9%
Total Retail pillars	239	282	922	1,194	26.0%	23.7%
Corporate Life & Pensions ³	137	181	637	501	21.5%	36.2%
Private Banking Client Solutions	13	9	168	139	8.0%	6.5%
Direct and Central Initiatives	34	39	66	66	51.3%	58.5%
Total	424	511	1,793	1,899	23.6%	26.9%

¹ Business operating profit for the first six months of 2012 included USD 28 million of profit from the Santander acquired insurance businesses, after deducting non-controlling interests and USD 12 million for adjustments to the liability for future earn-out payments, earned between the dates of acquisition and March 31, 2012. Details of the overall IFRS impact are set out in note 2 to the unaudited Consolidated financial statements.

² New business on an Embedded Value basis for the first six months of 2012 does not include any amounts from the Santander acquired insurance businesses or MAA.

³ A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011. This has a transitional impact over two years from the implementation date relating to renewals of business in-force at the date of the change. The renewed business contributed USD 39 million of new business value in the first six months of 2012 compared with USD 88 million in the same period of 2011.

Global Life continues to make progress against its strategic objectives, increasing geographic diversification outside Europe both organically and through acquisitions, shifting product mix from traditional savings products towards protection and unit-linked products, and leveraging its global strength in Corporate Life & Pensions. The recent acquisitions in Latin America and Asia-Pacific further strengthen the position of Global Life in those regions, but have not been included in new business results for the first six months of 2012.

Overall new business value of USD 424 million declined by USD 88 million, or by 17 percent in U.S. dollar terms and 14 percent on a local currency basis. The transitional impact of the methodology refinement for corporate protection renewals at USD 39 million for the first six months of 2012 was USD 49 million lower than in the same period of 2011, which contributed 7 percentage points of the decline in new business value on a local currency basis. In Germany, the impact of the continued reduction in interest rates resulted in new business value of USD 19 million compared with USD 82 million in the first six months of 2011. Overall APE decreased by USD 106 million, or by 6 percent in U.S. dollar terms and remained flat on a local currency basis. New business margin decreased by 3.3 percentage points to 23.6 percent, 2.5 percentage points of which related to the transitional impact of the methodology refinement for corporate protection renewals.

Operating and financial review *continued*

Retail pillars decreased by USD 43 million in new business value to USD 239 million, or by 15 percent in U.S. dollar terms and 11 percent on a local currency basis. The majority of this decrease arose in Europe, partially offset by growth in North America.

In Europe, the USD 58 million reduction in new business value was primarily driven by a combination of lower volumes and margin pressure experienced within all Retail pillars in Germany as a result of lower interest rates and reducing spreads on traditional business. In Spain, where over 90 percent of the business arises from Bank Distribution, new business value remained stable, despite the reduction in new business APE, because of the continued shift from lower margin savings business to higher margin protection business, which doubled the new business margin.

All Retail pillars in North America experienced growth in new business APE and new business value compared with the first six months of 2011. This growth was mainly driven by strong new business margin improvements in the protection business as a result of price increases and improved utilization of reinsurance. New business APE in North America increased by 23 percent compared with the first six months of 2011 as the expansion strategy in the IFA/Brokers channel and the growth initiatives in the Agents channel began to gain traction.

In **Corporate Life & Pensions**, new business value reduced by USD 45 million to USD 137 million. This reduction arose from the decrease of USD 49 million in the transitional impact from the refinement in methodology for corporate protection renewals, offset by underlying growth of USD 5 million, or 5 percent in new business value, driven by leveraging global relationships with major employee benefit consultants. The transitional impact from the refinement in methodology for corporate protection renewals also contributed 11.5 percentage points of the decrease of 14.7 percentage points in new business margin to 21.5 percent.

The main driver for the underlying Corporate Life & Pensions growth was the exceptionally strong result in the UK, where volumes increased by more than 86 percent in total for both corporate savings and protection business. Switzerland and Brazil also contributed strong volume growth in the corporate protection business.

Private Banking Client Solutions increased new business value by USD 4 million to USD 13 million. This growth in new business value was driven by the continued placements of tranches of an investment bond through bank partners in the UK, which also contributed USD 11 million to the overall growth of USD 29 million in APE.

Farmers

Farmers business operating profit decreased by USD 128 million to USD 601 million, or by 18 percent. This reduction mainly reflected the second consecutive year of significant weather-related losses, but without the favorable prior year loss development, which benefited Farmers Re during the first six months of 2011. This reduction was partially offset by higher business operating profit in Farmers Management Services due to higher management fee revenues driven by a 3 percent increase in gross earned premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group.

Farmers Management Services

in USD millions, for the six months ended June 30	2012	2011	Change
Management fees and other related revenues	1,420	1,375	3%
Management and other related expenses	(731)	(724)	(1%)
Gross management result	688	651	6%
Other net income	23	23	1%
Business operating profit	711	674	6%
Managed gross earned premium margin	7.4%	7.2%	0.2%

Business operating profit of USD 711 million increased by USD 38 million, or by 6 percent, mainly driven by an increase in management fee revenues while expenses increased at a lower rate as a result of continued disciplined expense management.

Management fees and other related revenues of USD 1.4 billion increased by USD 45 million, or by 3 percent, driven by the higher management fee income that resulted particularly from increased gross earned premiums in the Farmers Exchanges, which grew across all lines of business. **Management and other related expenses** of USD 731 million increased slightly compared with the level of expenses in the same period of 2011.

Consequently, the **gross management result** increased by USD 37 million to USD 688 million, while the **managed gross earned premium margin** increased to 7.4 percent during the first six months of 2012 compared with 7.2 percent in the same period of 2011 due to the combination of higher revenues and only slightly increased expenses.

Operating and financial review *continued*

Farmers Re

in USD millions, for the six months ended June 30	2012	2011	Change
Gross written premiums and policy fees	2,211	1,481	49%
Net underwriting result	(179)	(16)	nm
Business operating profit	(110)	55	nm
Loss ratio	76.9%	70.4%	(6.4 pts)
Expense ratio	31.3%	30.6%	(0.6 pts)
Combined ratio	108.2%	101.1%	(7.1 pts)

Business operating profit decreased by USD 165 million to a loss of USD 110 million, primarily due to the second consecutive year of significant weather-related losses, but without the favorable prior year loss development, which benefited Farmers Re during the first six months of 2011. Investment income decreased by USD 2 million, or by 3 percent primarily due to lower yields which more than offset the increase due to the higher All Lines agreement participation rate, which changed to 20 percent effective December 31, 2011 from 12 percent throughout 2011.

Gross written premiums and policy fees increased by USD 729 million or by 49 percent to USD 2.2 billion mainly as a result of the higher All Lines agreement participation rate.

The **net underwriting result** deteriorated by USD 163 million to a loss of USD 179 million. This was due to higher assumed losses from the Farmers Exchanges during the first six months of 2012 resulting in an increase of the underwriting loss, which was exacerbated by the increased participation rate in the All Lines agreement.

The **loss ratio** increased by 6.4 percentage points compared with the same period of 2011. A series of tornadoes and hailstorms that occurred mainly in the Midwest U.S., as well as severe wildfires in Colorado triggered an increase in the Farmers Re assumed weather-related loss ratio over the already high level in the same period of 2011. Furthermore, favorable prior year loss development during the first six months of 2011 did not repeat during the same period of 2012 and underlying losses also continued to increase. As a result of the continuing high loss experience in the U.S., there are some signs that the insurance industry is taking rate action in property lines of business, workers' compensation and in some cases auto. The **expense ratio** increased by 0.6 percentage points driven by an increase in the reinsurance commission rates.

Farmers Exchanges

Farmers Exchanges	in USD millions, for the six months ended June 30	2012	2011	Change
	Gross written premiums	9,546	9,168	4%
	Gross earned premiums	9,287	9,001	3%

Gross written premiums in the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group, increased by USD 379 million to USD 9.5 billion, or by 4 percent. This increase was driven by premium growth in all lines of business.

Gross earned premiums in the Farmers Exchanges increased by USD 286 million to USD 9.3 billion, or by 3 percent, driven by increases in all lines of business.

Other Operating Businesses

in USD millions, for the six months ended June 30	2012	2011	Change
Business operating profit:			
Holding and financing	(379)	(293)	(29%)
Headquarters	(90)	(104)	13%
Total business operating profit	(469)	(397)	(18%)

Other operating businesses loss increased by USD 72 million to USD 469 million during the first six months of 2012. **Holding and financing** business operating loss increased by USD 85 million to USD 379 million. A significant part of this increase arose from prior year benefits in foreign currency movements which occurred in the first six months of 2011, but have not repeated in the same period of 2012. There was also a small increase in interest expense as a result of the timing of new issuances and repayments of debt, as well as lower reinvestment yields in the first six months of 2012. The reduction of USD 13 million in the business operating loss at **Headquarters** is mainly due to differences in the timing of expenses and the subsequent recovery of costs from operating businesses.

Non-Core Businesses

in USD millions, for the six months ended June 30	2012	2011	Change
Business operating profit:			
Centrally managed businesses:	5	(50)	nm
Centre	20	12	69%
Banking activities	(23)	(32)	30%
Other centrally managed businesses	8	(30)	nm
Other run-off	88	16	nm
Total business operating profit	93	(34)	nm

Centrally managed businesses, which comprise run-off portfolios that are managed with the intention to pro-actively reduce capital risk while maximizing profit opportunities, reported a business operating profit of USD 5 million compared with a loss of USD 50 million in the same period of 2011. This change was primarily driven by **Other centrally managed businesses**, which recorded a USD 30 million loss in the first six months of 2011 mainly due to costs and accounting-related charges in connection with the run-off of Zurich Specialties London Limited. **Centre's** business operating profit improved by USD 8 million, mainly caused by commutation gains in its non-life business. Business operating profit from **Banking activities** improved by USD 10 million mainly reflecting lower loan loss provisions compared with the same period of 2011.

Other run-off, which largely comprises U.S. life insurance and annuity portfolios, reported a business operating profit of USD 88 million. This profit was mainly driven by a reassessment of liabilities on certain life run-off policies as well as by positive reserve movements reflecting reduced market volatility.

Operating and financial review *continued*

Investment position and performance

Details of total investments by category	in USD millions, as of	Group investments		Unit-linked investments	
		06/30/12	12/31/11	06/30/12	12/31/11
Cash and cash equivalents		8,451	8,768	1,322	1,280
Equity securities:		12,343	11,226	92,457	79,862
Common stocks, including equity unit trusts		8,075	8,355	72,648	68,308
Unit trusts (debt securities, real estate and short-term investments)		3,853	2,451	19,809	11,554
Common stock portfolios backing participating with-profit policyholder contracts		415	420	–	–
Debt securities		147,091	142,861	11,766	11,825
Real estate held for investment		8,157	8,468	3,768	3,898
Mortgage loans		10,503	11,058	–	–
Other loans		12,090	11,842	7,871	7,739
Investments in associates and joint ventures		163	161	–	–
Total		198,799	194,385	117,183	104,603

Group investments increased by USD 4.4 billion, or by 2 percent in U.S. dollar terms since December 31, 2011. On a local currency basis, total Group investments increased by USD 6.3 billion, or by 3 percent, mainly due to positive revaluations of debt and equity securities and a higher asset base from the Santander acquired insurance businesses.

Unit-linked investments increased by USD 12.6 billion or by 12 percent to USD 117.2 billion. USD 10.0 billion of the increase related to the Santander acquired insurance businesses. On a local currency basis, unit-linked investments increased by 13 percent.

The Group's investment strategy remains disciplined and the Group continues to selectively reduce risks which it believes to be unacceptable, where the risks are not adequately compensated, or which incur disproportionately high regulatory capital charges. The quality of the Group's investment portfolio remains high. Investment grade securities continue to comprise 98 percent of the Group's debt securities.

Performance of Group investments	in USD millions, for the six months ended June 30		
	2012	2011	Change
Net investment income ¹	3,440	3,655	(6%)
Net capital gains/(losses) on investments and impairments	656	561	17%
of which: net capital gains/(losses) on investments and impairments attributable to shareholders	494	473	5%
Net investment result on Group investments ¹	4,096	4,216	(3%)
Net investment return on Group investments²	2.1%	2.1%	-
Movements in net unrealized gains/(losses) on investments included in total equity	2,124	(706)	nm
Total investment result on Group investments¹	6,220	3,510	77%
Average Group investments	196,592	200,636	(2%)
Total return on Group investments²	3.2%	1.7%	1.4 pts

¹ After deducting investment expenses of USD 119 million and USD 117 million for the six months ended June 30, 2012 and 2011, respectively.

² Not annualized and calculated on average Group investments.

Total **net investment income** decreased by 6 percent in U.S. dollar terms to USD 3.4 billion and by 2 percent on a local currency basis compared with the same period of 2011, due to continued lower reinvestment yields on debt securities.

Total **net capital gains on investments and impairments** were USD 656 million, compared with net gains of USD 561 million in the same period of 2011. The gains for the first six months of 2012 included USD 485 million of net capital gains realized from active management and USD 269 million of positive asset revaluations, partially offset by impairments of USD 97 million.

The net capital gains from active management of debt securities were USD 379 million, while realizations of equity securities generated USD 104 million and other securities USD 1 million. Gains from equity securities were significantly higher in the same period of 2011, as they included the gain of USD 441 million on the sale of part of the Group's share in New China Life Insurance Co. Ltd.

Asset revaluations on investments booked at fair value through profit and loss were driven by gains of USD 141 million on debt securities, of USD 109 million on equity securities and of USD 98 million on derivatives, partly offset by negative real estate revaluations of USD 80 million.

Impairments of USD 97 million included USD 51 million on equity securities, USD 37 million on mortgages and USD 10 million on debt securities.

Net investment return on Group investments was 2.1 percent, unchanged compared with the same period of 2011.

Net unrealized gains/losses on investments included in total equity increased by USD 2.1 billion since December 31, 2011, mainly due to higher net unrealized gains on debt securities of USD 1.7 billion resulting from the tightening of credit spreads and continued falling yields on government securities. Rising equity markets contributed net unrealized gains on equities of USD 397 million since December 31, 2011.

Total return, net of investment expenses, on average Group investments was 3.2 percent, an increase of 1.4 percentage points compared with the same period of 2011. Debt securities, which are invested to match the Group's insurance liability profiles, returned 3.3 percent, equity securities returned 6.2 percent and other investments returned 1.9 percent.

Operating and financial review *continued*

Performance of unit-linked investments	in USD millions, for the six months ended June 30		
	2012	2011	Change
Net investment income	929	933	(1%)
Net capital (losses)/gains on investments and impairments	3,064	(130)	nm
Net investment result, net of investment expenses ¹	3,992	804	nm
Average investments	110,893	110,222	1%
Total return on unit-linked investments²	3.6%	0.7%	2.9 pts

¹ After deducting investment expenses of USD 247 million and USD 276 million for the six months ended June 30, 2012 and 2011, respectively.

² Total return is not annualized.

Total return on unit-linked investments delivered 3.6 percent compared with 0.7 percent in the same period of 2011. The increase in the total return was due to net capital gains of USD 3.1 billion compared with net capital losses of USD 130 million in the same period of 2011, reflecting developments in the financial markets in the first six months of 2012 compared with the same period of 2011. Net investment income decreased marginally by USD 4 million, or by less than 1 percent in U.S. dollar terms.

Insurance and investment contract liabilities

Reserves for losses and loss adjustment expenses

The majority of the Group's reserves for losses and loss adjustment expenses are attributable to General Insurance. The remaining reserves mostly relate to Farmers Re and to Non-Core Businesses.

in USD millions	Total Group		of which General Insurance	
	2012	2011	2012	2011
As of January 1				
Gross reserves for losses and loss adjustment expenses	67,525	68,107	64,074	63,864
Reinsurers' share	(12,401)	(12,093)	(11,175)	(11,192)
Net reserves for losses and loss adjustment expenses	55,124	56,014	52,899	52,672
Net losses and loss adjustment expenses incurred	11,316	10,869	9,605	10,418
Current year	11,690	11,536	9,980	11,026
Prior years	(374)	(667)	(374)	(608)
Total net losses and loss adjustment expenses paid	(11,326)	(11,497)	(9,719)	(10,231)
Current year	(3,588)	(3,625)	(2,616)	(2,952)
Prior years	(7,737)	(7,872)	(7,103)	(7,279)
Acquisitions/(divestments)	28	(1)	106	–
Foreign currency translation effects	(245)	1,884	(244)	1,867
As of June 30				
Net reserves for losses and loss adjustment expenses	54,897	57,268	52,647	54,727
Reinsurers' share	(12,130)	(12,962)	(11,002)	(11,591)
Gross reserves for losses and loss adjustment expenses	67,027	70,231	63,649	66,319

As of June 30, 2012, the Group's **net reserves for loss and loss adjustment expenses** decreased by USD 227 million to USD 54.9 billion compared with December 31, 2011. This decrease is mainly due to USD 374 millions of favorable prior year reserve developments and to the effects of foreign currency translation of USD 245 million.

Operating and financial review *continued*

Reserves for life insurance contracts and liabilities for investment contracts

The majority of the Group's reserves for life insurance contracts and liabilities for investment contracts are attributable to Global Life. Life insurance reserves in other segments relate predominantly to businesses that are in run-off or are centrally managed, and are included only in this first table.

Group reserves for life insurance contracts, net of reinsurance, and liabilities for investment contracts	in USD millions	Global Life		Other segments		Total Group	
		2012	2011	2012	2011	2012	2011
		Net reserves as of January 1	184,599	187,196	18,027	17,331	202,626
Movements in net reserves	13,276	12,145	(5)	590	13,271	12,735	
Net reserves as of June 30	197,876	199,342	18,022	17,921	215,897	217,263	

The following provides further detail on the development and composition of reserves and liabilities in the **Global Life** business.

Global Life – Development of reserves and liabilities	in USD millions	Unit-linked insurance and investment contracts ¹		Other life insurance liabilities ²		Total reserves and liabilities	
		2012	2011	2012	2011	2012	2011
		As of January 1					
Gross reserves	98,307	100,891	88,357	88,299	186,665	189,189	
Reinsurers' share	–	–	(2,065)	(1,993)	(2,065)	(1,993)	
Net reserves	98,307	100,891	86,292	86,306	184,599	187,196	
Premiums	8,776	7,745	4,328	4,870	13,105	12,615	
Claims	(8,521)	(7,295)	(4,279)	(4,920)	(12,800)	(12,214)	
Fee income and other expenses	(1,000)	(978)	(1,021)	(1,110)	(2,022)	(2,088)	
Interest and bonuses credited to policyholders	3,844	852	1,665	1,696	5,509	2,548	
Change in assumptions	–	–	19	(80)	19	(80)	
(Divestments)/acquisitions and transfers	9,943	24	1,151	(29)	11,094	(5)	
(Decreases)/increases recorded in other comprehensive income	(1)	(4)	660	(406)	658	(409)	
Foreign currency translation effects	(931)	4,912	(1,356)	6,868	(2,288)	11,780	
As of June 30							
Net reserves	110,416	106,146	87,459	93,195	197,876	199,342	
Reinsurers' share	–	–	(1,884)	(2,157)	(1,884)	(2,157)	
Gross reserves	110,416	106,146	89,344	95,352	199,760	201,499	

¹ Includes reserves for unit-linked contracts, the net amounts of which were USD 58.5 billion and USD 52.6 billion, and liabilities for investment contracts, the net amounts of which were USD 51.9 billion and USD 53.5 billion as of June 30, 2012 and 2011, respectively

² Includes reserves for future life policyholders' benefits, the net amounts of which were USD 72.4 billion and USD 79.2 billion and policyholders' contract deposits and other funds, the net amounts of which were USD 15.1 billion and USD 14.0 billion as of June 30, 2012 and 2011, respectively

Total reserves and liabilities for insurance and investment contracts, net of reinsurance, increased by USD 13.3 billion, with USD 11.1 billion of the increase related to the Santander acquired insurance businesses, or by 7 percent in U.S. dollar terms and 18 percent on a local currency basis, compared with December 31, 2011.

Global Life –
Reserves and
liabilities, net
of reinsurance,
by region

in USD millions, as of

	Unit-linked insurance and investment contracts		Other life insurance liabilities		Total reserves and liabilities	
	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11
North America	979	913	5,271	5,214	6,250	6,126
Latin America ¹	10,448	475	3,385	2,037	13,833	2,512
Europe	86,600	84,797	75,540	75,763	162,140	160,560
<i>of which:</i>						
<i>United Kingdom</i>	53,712	52,460	5,107	5,056	58,819	57,516
<i>Germany</i>	10,449	9,859	40,002	40,004	50,451	49,863
<i>Switzerland</i>	698	671	18,852	18,672	19,550	19,343
<i>Ireland</i>	11,415	10,792	1,564	1,519	12,979	12,310
<i>Spain</i>	5,001	5,476	5,579	6,007	10,579	11,482
<i>Rest of Europe</i>	5,326	5,539	4,437	4,505	9,762	10,045
Asia-Pacific and Middle East	10,347	10,265	2,966	3,005	13,313	13,269
Other	2,042	1,858	294	273	2,336	2,131
Eliminations	–	–	3	2	3	2
Total	110,416	98,307	87,459	86,292	197,876	184,599

¹ The increase in 2012 relates to Santander acquired insurance businesses. The June 30, 2012 balance reflects the March 31, 2012 position from those businesses.

Unit-linked insurance and investment contracts, net of reinsurance, increased by USD 12.1 billion, with USD 10.0 billion of the increase related to the Santander acquired insurance businesses, or by 12 percent in U.S. dollar terms and 22 percent on a local currency basis, compared with December 31, 2011.

Other life insurance liabilities, net of reinsurance, increased by USD 1.2 billion, with all of the increase related to the Santander acquired insurance businesses, or by 1 percent in U.S. dollar terms and 14 percent on a local currency basis, compared with December 31, 2011.

Operating and financial review *continued*

Indebtedness

in USD millions, as of	Collateralized loans		Senior debt		Subordinated debt		Total	
	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11
Operational debt	160	223	832 ^{1,2}	864 ^{1,2}	28 ²	–	1,020	1,086
Financial debt	–	–	5,897	5,678	5,672	5,476	11,569	11,153
Total	160	223	6,729	6,541	5,700	5,476	12,589	12,240

¹ Operational senior debt includes USD 750 million in senior debt issued under the EMTN Programme by Zurich Finance (Luxembourg) S.A. in September 2009, which was loaned directly to the Group's banking activities. This issue has been recognized as operational debt by Moody's but not by Standard & Poor's.

² Operational senior and subordinated debt include an adjustment of USD 100 million for non-recourse debt.

Total operational and financial debt increased by USD 349 million to USD 12.6 billion, or by 3 percent in U.S. dollar terms and 4 percent on a local currency basis.

Operational debt decreased by USD 67 million to USD 1.0 billion or by 6 percent, mainly due to the repayment of USD 63 million of collateralized loans.

Financial debt increased by USD 416 million to USD 11.6 billion, or by 4 percent in U.S. dollar terms and 4 percent on a local currency basis.

The net increase resulted from the issue of a number of debt instruments in the first six months of 2012, which were used to re-finance matured debt and an early redemption of debt, as well as for general corporate purposes.

Details of senior and subordinated debt are set out in note 11 of the unaudited Consolidated financial statements. In summary, in June 2012, senior debt of USD 1.1 billion was issued under the Euro Medium Term Note Programme (EMTN Programme) and there was a net increase of USD 280 million in Euro Commercial Paper Notes. In April 2012, USD 1.0 billion of senior debt was repaid. In January 2012, subordinated debt of USD 500 million of perpetual capital notes was issued under the EMTN Programme and in June the remaining USD 250 million of Series IV Trust Preferred Securities, held as subordinated debt, were redeemed early.

Capitalization

in USD millions

	Shareholders' equity	Non-controlling interests	Total equity
As of December 31, 2011	31,636	2,380	34,017
Proceeds from issuance of share capital	199	–	199
Proceeds from treasury share transactions	21	–	21
Dividends	(1,923)	(30)	(1,953)
Share-based payment transactions	(75)	–	(75)
Change of ownership with no loss of control	(5)	–	(5)
Total comprehensive income	2,568	14	2,582
Net income after taxes	2,218	14	2,232
Net other recognized income and expenses	350	–	351
Net changes in capitalization and non-controlling interests	–	99	99
As of June 30, 2012	32,421	2,464	34,884

Total equity increased by USD 868 million to USD 34.9 billion, or by 3 percent. This growth in total equity was after the deduction of USD 2.8 billion for the dividend of CHF 17.00 per share, which was approved at the Annual General Meeting on March 29, 2012, to be paid out of the capital contribution reserve. Of the USD 2.8 billion, USD 1.9 billion has been included as dividends and USD 840 million has been included in other comprehensive income as cumulative foreign currency translation adjustments. Net other recognized income of USD 351 million included net unrealized gains on investments and net actuarial gains on pension plans of USD 1.2 billion in total, offset by cumulative foreign currency translation adjustment losses of USD 823 million, including the loss effect of the cumulative translation adjustment from the dividend. The increase of USD 84 million in non-controlling interests arose mainly from the impact of adjustments to the valuation of the Santander acquired insurance businesses since December 31, 2011.

The Swiss Solvency Test (SST) became fully effective and mandatory as of January 1, 2011. Under SST, the Group is required to use a company-specific internal model to calculate risk-bearing and target capital. The Group is required to file SST reports biannually. For December 31, 2011, the Group filed, on a consolidated basis, an SST capitalization ratio of 185 percent compared with 225 percent as of June 30, 2011. This reduction arose because of the impact of lower interest rates, the impact of the recent acquisitions, and changes to the Group's internal SST model following discussions with the Swiss Financial Market Supervisory Authority (FINMA). The filing as of December 31, 2011 is subject to review by FINMA as is the final approval of the Group's internal model.

The Group also continues to be subject to Solvency I requirements based on the Swiss Insurance Supervision Law. The Solvency I ratio as of June 30, 2012, increased to 261 percent from 242 percent as of December 31, 2011.

Operating and financial review *continued*

Cash flows

Summary of cash flows	in USD millions, for the six months ended June 30	2012	2011
		Net cash provided by/(used in) operating activities	1,889
Net cash used in investing activities	(55)	(88)	
Net cash provided by/(used in) financing activities	(2,043)	(2,578)	
Foreign currency translation effects on cash and cash equivalents	(65)	834	
Change in cash and cash equivalents	(275)	1,358	
Cash and cash equivalents as of January 1	10,048	9,726	
Cash and cash equivalents as of June 30	9,773	11,084	

Net cash used in operating activities, which included cash movements in and out of, as well as within total investments, was USD 1.9 billion for the six months ended June 30, 2012. Net cash used in investing activities of USD 55 million was primarily related to the sales and purchases of property and equipment. Net cash outflows from financing activities of USD 2.0 billion were primarily related to the payment of dividends of USD 2.7 billion partially offset by the net issuance of debt of USD 575 million.

Currency translation impact

The Group operates worldwide in multiple currencies and seeks to match foreign exchange exposures on an economic basis.

As the Group has chosen the U.S. dollar as its presentation currency, differences arise when functional currencies are translated into the Group's presentation currency. The table below shows the effect of foreign currency rates on the translation of selected line items.

Selected Group income statement line items	variance over the prior period, for the six months ended June 30, 2012 and 2011	in USD	
		millions	in %
	Gross written premiums and policy fees	(1,110)	(4%)
	Insurance benefits and losses, gross of reinsurance	657	4%
	Net income attributable to shareholders	(33)	(1%)
	Business operating profit	(44)	(2%)

The Consolidated income statements are translated at average exchange rates. In the first six months of 2012, the U.S. dollar has on average been stronger against the euro, Swiss franc and British pound, compared with the same period of 2011. The net impact on the result has been a reduction in U.S. dollar terms with a decrease in gross written premium and policy fees partially offset by a decrease in U.S. dollar terms in insurance benefits and losses.

Selected Group balance sheet line items	variance over December 31, 2011, as of June 30, 2012	in USD	
		millions	in %
	Total investments	(2,771)	(1%)
	Reserves for insurance contracts, gross	(2,749)	(1%)
	Cumulative translation adjustment in shareholders' equity	(814)	(3%)

The Consolidated balance sheets are translated at end-of-period rates. The U.S. dollar has strengthened against the euro and Swiss franc, but slightly weakened against the British pound as of June 30, 2012 compared with December 31, 2011, resulting in a decrease in U.S. dollar terms for most balance sheet items.

Consolidated financial statements (unaudited)

Contents

I		
1.	Consolidated income statements (unaudited)	31
2.	Consolidated statements of comprehensive income (unaudited)	32
3.	Consolidated balance sheets (unaudited)	36
4.	Consolidated statements of cash flows (unaudited)	38
5.	Consolidated statements of changes in equity (unaudited)	40
II		
1.	Basis of presentation	42
2.	Acquisitions and divestments	45
3.	Investments	48
4.	Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts	53
5.	Liabilities for investment contracts	55
6.	Gross and ceded insurance revenues and expenses	56
7.	Deferred policy acquisition costs and deferred origination costs	57
8.	Goodwill and other intangible assets	58
9.	Restructuring provisions	60
10.	Income taxes	61
11.	Senior and subordinated debt	62
12.	Earnings per share	66
13.	Legal proceedings and regulatory investigations	67
14.	Related party transactions	69
15.	Segment information	70
III		
1.	Review report of the auditors	92

Consolidated income statements (unaudited)

in USD millions	Notes	Restated		Restated	
		2012	2011	2012	2011
		for the three	for the three	for the six	for the six
		months ended	months ended	months ended	months ended
		June 30	June 30	June 30	June 30
Revenues					
Gross written premiums		12,376	11,879	26,821	25,389
Policy fees		789	710	1,422	1,291
Gross written premiums and policy fees		13,166	12,589	28,243	26,680
Less premiums ceded to reinsurers		(1,629)	(2,360)	(3,340)	(3,944)
Net written premiums and policy fees		11,536	10,229	24,903	22,737
Net change in reserves for unearned premiums		(337)	81	(2,126)	(1,593)
Net earned premiums and policy fees		11,199	10,310	22,778	21,144
Farmers management fees and other related revenues		710	693	1,420	1,375
Net investment result on Group investments	3	2,336	2,517	4,096	4,216
Net investment income on Group investments		1,729	1,875	3,440	3,655
Net capital gains/(losses) and impairments on Group investments		606	643	656	561
Net investment result on unit-linked investments	3	(1,703)	501	3,992	804
Net gain/(loss) on divestments of businesses		–	10	1	10
Other income		434	368	794	713
Total revenues		12,976	14,399	33,081	28,262
Benefits, losses and expenses					
Insurance benefits and losses, gross of reinsurance	6	8,733	9,588	17,527	18,804
Less ceded insurance benefits and losses	6	(560)	(2,131)	(1,356)	(2,828)
Insurance benefits and losses, net of reinsurance	6	8,172	7,457	16,170	15,976
Policyholder dividends and participation in profits, net of reinsurance	6	(1,237)	845	4,591	1,374
Underwriting and policy acquisition costs, net of reinsurance		2,431	2,063	4,820	4,002
Administrative and other operating expense		2,130	2,025	4,071	3,819
Interest expense on debt	11	143	152	293	287
Interest credited to policyholders and other interest		116	122	227	244
Total benefits, losses and expenses		11,755	12,663	30,172	25,702
Net income before income taxes		1,221	1,736	2,909	2,560
Income tax expense	10	(155)	(381)	(677)	(557)
attributable to policyholders	10	154	5	(22)	29
attributable to shareholders	10	(309)	(386)	(655)	(586)
Net income after taxes		1,066	1,355	2,232	2,003
attributable to non-controlling interests		(9)	25	14	32
attributable to shareholders		1,075	1,331	2,218	1,971
in USD					
Basic earnings per share	12	7.33	9.11	15.15	13.51
Diluted earnings per share	12	7.30	9.04	15.07	13.40
in CHF					
Basic earnings per share	12	6.86	8.23	14.06	12.21
Diluted earnings per share	12	6.83	8.17	13.99	12.11

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Consolidated financial statements *continued*

Consolidated statements of comprehensive income (unaudited)

in USD millions, for the six months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2011			
Comprehensive income for the period, as restated	1,971	(276)	(5)
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		146	144
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(522)	(156)
Deferred income tax (before foreign currency translation effects)		18	3
Foreign currency translation effects		82	3
2012			
Comprehensive income for the period	2,218	1,027	19
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		1,652	(26)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(372)	39
Deferred income tax (before foreign currency translation effects)		(239)	10
Foreign currency translation effects		(13)	(3)

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(386)	(667)	34	68	102	(566)	1,405	129	1,534
	(384)	(93)	43	197	240	147			
	(1)	(679)	–	–	–	(679)			
	–	21	(9)	(60)	(70)	(48)			
	–	85	–	(69)	(69)	16			
	(814)	232	–	118	118	350	2,568	14	2,582
	(813)	812	–	150	150	962			
	(1)	(335)	–	–	–	(335)			
	–	(229)	–	(33)	(33)	(262)			
	–	(16)	–	2	2	(14)			

Consolidated financial statements *continued*

in USD millions, for the three months ended June 30

	Net income attributable to shareholders	Net unrealized gains/(losses) on available- for-sale investments	Cash flow hedges
2011			
Comprehensive income for the period	1,331	(14)	52
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		480	112
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(509)	(67)
Deferred income tax (before foreign currency translation effects)		(64)	(17)
Foreign currency translation effects		79	24
2012			
Comprehensive income for the period	1,075	(39)	21
Details of movements during the period			
Change (before reclassification, tax and foreign currency translation effects and after allocation to policyholders)		211	(61)
Reclassification to income statement (before tax and foreign currency translation effects and after allocation to policyholders)		(183)	91
Deferred income tax (before foreign currency translation effects)		15	3
Foreign currency translation effects		(83)	(12)

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

	Cumulative foreign currency translation adjustment	Total other comprehensive income recycled through profit or loss	Revaluation reserve	Net actuarial gains/(losses) on pension plans	Total other comprehensive income not recycled through profit or loss	Total other comprehensive income attributable to shareholders	Total comprehensive income attributable to shareholders	Comprehensive income attributable to non-controlling interests	Total comprehensive income
	(167)	(130)	34	6	40	(90)	1,241	54	1,295
	(164)	428	43	58	101	530			
	(2)	(578)	–	–	–	(578)			
	–	(81)	(10)	(11)	(21)	(102)			
	–	102	–	(41)	(41)	61			
	(385)	(404)	–	(116)	(116)	(520)	555	(157)	397
	(384)	(235)	–	(241)	(241)	(476)			
	(1)	(93)	–	–	–	(93)			
	–	18	–	67	67	86			
	–	(95)	–	57	57	(38)			

Consolidated financial statements *continued*

Consolidated balance sheets (unaudited)

Assets	in USD millions, as of	Notes	Restated		
			06/30/12	12/31/11	01/01/11
Investments					
Total Group investments			198,799	194,385	195,898
Cash and cash equivalents			8,451	8,768	8,182
Equity securities			12,343	11,226	13,729
Debt securities			147,091	142,861	140,254
Real estate held for investment			8,157	8,468	8,274
Mortgage loans			10,503	11,058	11,851
Other loans			12,090	11,842	13,419
Investments in associates and joint ventures			163	161	188
Investments for unit-linked contracts			117,183	104,603	107,947
Total investments		3	315,983	298,988	303,845
Reinsurers' share of reserves for insurance contracts		4	19,431	19,361	18,816
Deposits made under assumed reinsurance contracts			2,530	2,711	2,837
Deferred policy acquisition costs		7	17,739	16,864	16,281
Deferred origination costs		7	785	824	866
Accrued investment income			2,213	2,589	2,749
Receivables and other assets ¹			20,084	32,766	17,671
Mortgage loans given as collateral			160	223	743
Deferred tax assets			1,823	2,076	2,067
Assets held for sale ²			–	54	–
Property and equipment			1,526	1,579	1,689
Goodwill		8	2,046	2,060	2,104
Other intangible assets		8	7,753	5,774	5,954
Total assets			392,071	385,869	375,623

¹ As of December 31, 2011 includes total assets related to the Santander acquired insurance businesses (see note 2).

² Relates to the sale of a company in Bolivia (see note 2).

Liabilities
and equity

in USD millions, as of	Notes	06/30/12	12/31/11	Restated 01/01/11
Liabilities				
Reserve for premium refunds		582	554	518
Liabilities for investment contracts	5	51,905	50,661	50,667
Deposits received under ceded reinsurance contracts		1,531	1,543	1,362
Deferred front-end fees		5,780	5,720	5,626
Reserves for insurance contracts	4	255,469	240,811	242,719
Obligations to repurchase securities		1,556	1,794	3,330
Accrued liabilities		3,007	3,110	3,011
Other liabilities ¹		20,089	31,317	18,396
Collateralized loans		160	223	743
Deferred tax liabilities		4,677	4,049	4,554
Liabilities held for sale ²		–	55	–
Senior debt	11	6,729	6,541	6,453
Subordinated debt	11	5,700	5,476	5,004
Total liabilities		357,186	351,852	342,382
Equity				
Share capital		11	10	10
Additional paid-in capital		8,108	9,907	11,630
Net unrealized gains/(losses) on available-for-sale investments		3,827	2,800	2,468
Cash flow hedges		251	232	56
Cumulative foreign currency translation adjustment		(3,446)	(2,632)	(1,120)
Revaluation reserve		180	180	126
Retained earnings		23,490	21,139	18,259
Common shareholders' equity		32,421	31,636	31,429
Preferred securities		–	–	475
Shareholders' equity		32,421	31,636	31,905
Non-controlling interests		2,464	2,380	1,336
Total equity		34,884	34,017	33,241
Total liabilities and equity		392,071	385,869	375,623

¹ As of December 31, 2011 includes total liabilities related to the Santander acquired insurance businesses (see note 2).

² Relates to the sale of a company in Bolivia (see note 2).

Consolidated financial statements *continued*

Consolidated statements of cash flows (unaudited)

in USD millions, for the six months ended June 30	2012	Restated 2011
Cash flows from operating activities		
Net income attributable to shareholders	2,218	1,971
Adjustments for:		
Net (gain)/loss on divestments of businesses	(1)	(10)
(Income)/expense from equity method accounted investments	(6)	(6)
Depreciation, amortization and impairments of fixed and intangible assets	506	443
Other non-cash items	(365)	742
Underwriting activities:	5,402	1,670
<i>Reserves for insurance contracts, gross</i>	4,213	2,427
<i>Reinsurers' share of reserves for insurance contracts</i>	105	(939)
<i>Liabilities for investment contracts</i>	1,500	253
<i>Deferred policy acquisition costs</i>	(598)	(665)
<i>Deferred origination costs</i>	45	13
<i>Deposits made under assumed reinsurance contracts</i>	154	388
<i>Deposits received under ceded reinsurance contracts</i>	(18)	193
Investments:	(5,554)	601
<i>Net capital (gains)/losses on total investments and impairments</i>	(3,720)	(432)
<i>Net change in trading securities and derivatives</i>	(259)	(211)
<i>Net change in money market investments</i>	(198)	535
<i>Sales and maturities</i>		
<i>Debt securities</i>	53,119	50,570
<i>Equity securities</i>	31,280	28,562
<i>Other</i>	22,191	51,108
<i>Purchases</i>		
<i>Debt securities</i>	(54,438)	(52,235)
<i>Equity securities</i>	(31,136)	(26,657)
<i>Other</i>	(22,394)	(50,639)
Proceeds from sale and repurchase agreements	(257)	(1,077)
Movements in receivables and payables	99	(189)
Net changes in other operational assets and liabilities	(218)	(869)
Deferred income tax, net	64	(86)
Net cash provided by/(used in) operating activities	1,889	3,190

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

in USD millions, for the six months ended June 30	2012	Restated 2011
Cash flows from investing activities		
Sales of property and equipment	32	29
Purchases of property and equipment	(92)	(130)
Disposal of equity method accounted investments, net	1	1
Acquisitions of companies, net of cash acquired ¹	13	–
Divestments of companies, net of cash balances	(9)	11
Dividends from equity method accounted investments	–	1
Net cash provided by/(used in) investing activities	(55)	(88)
Cash flows from financing activities		
Dividends paid	(2,717)	(2,745)
Issuance of share capital	78	73
Net movement in treasury shares and preferred securities	21	20
Redemption of preferred securities and transactions with non-controlling interests	–	(476)
Issuance of debt	1,873	549
Repayments of debt outstanding	(1,298)	–
Net cash provided by/(used in) financing activities	(2,043)	(2,578)
Foreign currency translation effects on cash and cash equivalents	(65)	834
Change in cash and cash equivalents	(275)	1,358
Cash and cash equivalents as of January 1	10,048	9,726
Cash and cash equivalents as of June 30	9,773	11,084
of which:		
– cash and cash equivalents – Group investments	8,451	9,708
– cash and cash equivalents – unit linked	1,322	1,375
Other supplementary cash flow disclosures		
Other interest income received	3,729	4,012
Dividend income received	938	967
Other interest expense paid	(483)	(436)
Income tax (paid)	(700)	(705)

¹ The 2012 movement relates to the Santander acquired insurance businesses, partially offset by the increase in the shareholding in Zurich Insurance South Africa Limited and the acquisition of Malaysian Assurance Alliance Berhad (MAA), now known as Zurich Insurance Malaysia Berhad (see note 2).

Cash and cash equivalents

in USD millions, as of June 30	2012	Restated 2011
Cash and cash equivalents comprise the following:		
Cash at bank and in hand	5,613	6,598
Cash equivalents	4,161	4,486
Total	9,773	11,084

As of June 30, 2012 and 2011, cash and cash equivalents held to meet local regulatory requirements were USD 1,546 million and USD 981 million, respectively.

The notes to the Consolidated financial statements are an integral part of these Consolidated financial statements.

Consolidated financial statements *continued*

Consolidated statements of changes in equity (unaudited)

in USD millions				
	Share capital	Additional paid-in capital	Net unrealized gains/(losses) on available-for-sale investments	
Balance as of December 31, 2010	10	11,630	2,468	
Issuance of share capital ¹	–	205	–	
Dividends to shareholders ²	–	(1,912)	–	
Redemption of preferred shares ⁴	–	(15)	–	
Share-based payment transactions	–	(70)	–	
Treasury share transactions ⁵	–	(20)	–	
Total comprehensive income for the period, net of tax	–	–	(276)	
<i>Net income</i>	–	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	(276)	
<i>Cash flow hedges</i>	–	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	–	
<i>Revaluation reserve</i>	–	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–	
Net changes in capitalization of non-controlling interests	–	–	–	
Balance as of June 30, 2011, as restated	10	9,818	2,192	
Balance as of December 31, 2011	10	9,907	2,800	
Issuance of share capital ¹	–	199	–	
Dividends to shareholders ³	–	(1,923)	–	
Share-based payment transactions	–	(75)	–	
Treasury share transactions ⁵	–	1	–	
Change of ownership with no loss of control	–	–	–	
Total comprehensive income for the period, net of tax	–	–	1,027	
<i>Net income</i>	–	–	–	
<i>Net unrealized gains/(losses) on available-for-sale investments</i>	–	–	1,027	
<i>Cash flow hedges</i>	–	–	–	
<i>Cumulative foreign currency translation adjustment</i>	–	–	–	
<i>Net actuarial gains/(losses) on pension plans</i>	–	–	–	
Net changes in capitalization of non-controlling interests	–	–	–	
Balance as of June 30, 2012	11	8,108	3,827	

¹ The number of common shares issued as of June 30, 2012 was 148,202,200 (June 30, 2011: 147,357,598; December 31, 2011: 147,385,822; December 31, 2010: 146,586,896).

² As approved by the Annual General Meeting on March 31, 2011, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 795 million between the dividend at transaction day exchange rates amounting to USD 2,706 million and the dividend at historical exchange rates amounting to USD 1,912 million is reflected in the cumulative foreign currency translation adjustment.

³ As approved by the Annual General Meeting on March 29, 2012, the dividend of CHF 17 per share was paid out of the capital contribution reserve. The difference of USD 840 million between the dividend at transaction day exchange rates amounting to USD 2,763 million and the dividend at historical exchange rates amounting to USD 1,923 million is reflected in the cumulative foreign currency translation adjustment.

⁴ Zurich RegCaPS Funding Trusts II, V and VI redeemed USD 575 million of Trust Capital Securities II, V and VI on March 30, 2011 (Series II), on April 4, 2011 (Series V) and on April 25, 2011 (Series VI) respectively.

⁵ The number of treasury shares deducted from equity as of June 30, 2012 amounted to 1,361,465 (June 30, 2011: 1,386,547; December 31, 2011: 1,373,392; December 31, 2010: 1,399,080).

	Cash flow hedges	Cumulative foreign currency translation adjustment	Revaluation reserve	Retained earnings	Common shareholders' equity	Preferred securities	Shareholders' equity	Non-controlling interests	Total equity
	56	(1,120)	126	18,259	31,429	475	31,905	1,336	33,241
	-	-	-	-	205	-	205	-	205
	-	-	-	-	(1,912)	(4)	(1,916)	(9)	(1,925)
	-	-	-	-	(15)	(462)	(476)	-	(476)
	-	-	-	-	(70)	-	(70)	-	(70)
	-	-	-	54	34	(14)	20	-	20
	(5)	(386)	34	2,035	1,401	4	1,405	129	1,534
	-	-	-	1,967	1,967	4	1,971		
	-	-	-	-	(276)	-	(276)		
	(5)	-	-	-	(5)	-	(5)		
	-	(386)	-	-	(386)	-	(386)		
	-	-	34	-	34	-	34		
	-	-	-	68	68	-	68		
	-	-	-	-	-	-	-	52	52
	51	(1,506)	160	20,348	31,073	-	31,073	1,508	32,581
	232	(2,632)	180	21,139	31,636	-	31,636	2,380	34,017
	-	-	-	-	199	-	199	-	199
	-	-	-	-	(1,923)	-	(1,923)	(30)	(1,953)
	-	-	-	-	(75)	-	(75)	-	(75)
	-	-	-	20	21	-	21	-	21
	-	-	-	(5)	(5)	-	(5)	-	(5)
	19	(814)	-	2,336	2,568	-	2,568	14	2,582
	-	-	-	2,218	2,218	-	2,218		
	-	-	-	-	1,027	-	1,027		
	19	-	-	-	19	-	19		
	-	(814)	-	-	(814)	-	(814)		
	-	-	-	118	118	-	118		
	-	-	-	-	-	-	-	99	99
	251	(3,446)	180	23,490	32,421	-	32,421	2,464	34,884

Consolidated financial statements *continued*

1. Basis of presentation

General information

Zurich Insurance Group Ltd (formerly known as Zurich Financial Services Ltd), a Swiss corporation, is the holding company of the Group and is listed on the SIX Swiss Exchange. Zurich Insurance Group Ltd was incorporated on April 26, 2000, in Zurich, Switzerland. It is recorded in the Commercial Register of the Canton of Zurich under its registered address at Mythenquai 2, 8002 Zurich. On April 4, 2012, Zurich Financial Services Ltd was renamed to Zurich Insurance Group Ltd in line with the streamlining of its business to concentrate on insurance. Also, the Swiss regulator FINMA has re-designated the Group from an insurance conglomerate to an insurance group. Throughout this document, Zurich Insurance Group Ltd is used consistently even if reference is made to facts that occurred prior to the renaming of the Company.

The unaudited Consolidated financial statements for the six months ended June 30, 2012 of Zurich Insurance Group Ltd and its subsidiaries (collectively the Group) have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting." The accounting policies used to prepare the unaudited Consolidated financial statements comply with International Financial Reporting Standards (IFRS), and are consistent with those set out in the notes to the Consolidated financial statements in the Annual Report 2011 of the Group.

The accounting policies applied by the reportable segments are the same as those applied by the Group. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices, with the exception of dividends, realized capital gains as well as gains and losses on transfers of net assets, which are eliminated against equity. In the unaudited Consolidated financial statements inter-segment revenues and transfers are eliminated.

The unaudited Consolidated financial statements for the six months ended June 30, 2012 should be read in conjunction with the Group's Annual Report 2011.

Certain amounts recorded in the unaudited Consolidated financial statements reflect estimates and assumptions made by management about insurance liability reserves, investment valuations, interest rates and other factors. Actual results may differ from the estimates and assumptions made. In addition, interim results are not necessarily indicative of full year results.

All amounts in the unaudited Consolidated financial statements, unless otherwise stated, are shown in USD, rounded to the nearest million with the consequence that the rounded amounts may not add to the rounded total in all cases.

Table 1.1 summarizes the principal exchange rates used for translation purposes. Net gains/(losses) on foreign currency transactions included in the consolidated income statements were USD 7 million and USD 52 million for the six months ended June 30, 2012 and 2011, respectively. Foreign currency exchange forward and swap gains/(losses) included in these amounts were USD 150 million and USD 33 million for the six months ended June 30, 2012 and 2011, respectively.

Table 1.1

Principal exchange rates

USD per foreign currency unit	Balance sheets		Income statements and cash flows	
	06/30/2012	12/31/2011	06/30/2012	06/30/2011
	Euro	1.2672	1.2969	1.2975
Swiss franc	1.0539	1.0666	1.0770	1.1069
British pound	1.5687	1.5533	1.5769	1.6166

Implementation of new accounting standards

The following new accounting standards or amendments to and interpretations of standards relevant to the Group have been implemented for the financial year beginning January 1, 2012, with no material impact on the Group's financial position or performance:

Table 1.2

Standard/ Interpretation		Effective date
	Amended Standards	
	IFRS 7	Disclosures – Transfer of Financial Assets 1 July 2011
	IAS 12	Deferred Tax – Recovery of Underlying Assets 1 January 2012

The Group has not early-adopted the following standards:

Table 1.3

Standard/ Interpretation		Effective date
	New Standards	
	IFRS 10	Consolidated Financial Statements 1 January 2013
	IFRS 11	Joint Arrangements 1 January 2013
	IFRS 12	Disclosure of Interests in Other Entities 1 January 2013
	IFRS 13	Fair Value Measurement 1 January 2013
	IFRS 9	Financial Instruments 1 January 2015
	Amended Standards	
	IAS 1	Presentations of Components of Other Comprehensive Income (OCI) 1 July 2012
	IAS 19	Employee Benefits 1 January 2013
	IAS 27	Separate Financial Statements 1 January 2013
	IAS 28	Investments in Associates and Joint Ventures 1 January 2013
	IAS 32	Offsetting Financial Assets and Financial Liabilities 1 January 2014

Restatements

In the Group's General Insurance business in Germany, prior year results were misstated for a period of time due to some errors in adjustments between local GAAP and IFRS. This resulted in incorrect reserves for losses, unearned premium reserves and deferred acquisition costs for some specific products. The errors identified by management have been restated and resulted in an increase in net income after taxes of USD 6 million and in business operating profit of USD 8 million for the six months ended June 30, 2011. The impact on various line items for the six months ended June 30, 2011 in the consolidated income statement is set out in table 1.4. Consolidated income statements, consolidated balance sheets, consolidated statements of cash flows, consolidated statements of changes in equity and notes 4, 6, 7, 10, 12 and 15 have been restated accordingly.

The Group erroneously classified certain life insurance products. The classification was corrected in 2012 as the impact on the Group's consolidated income statement was not material. The reclassifications in the balance sheet between liabilities for investment contracts and reserves for unit-linked contracts, and between deferred policy acquisition costs and deferred origination costs are set out in notes 4, 5 and 7.

Consolidated financial statements *continued*

Table 1.4			
in USD millions, for the six months ended June 30, 2011			
	As reported	Restatement	As restated
Restatement of the consolidated income statement			
Revenues			
Gross written premiums	25,389	–	25,389
Policy fees	1,291	–	1,291
Gross written premiums and policy fees	26,680	–	26,680
Less premiums ceded to reinsurers	(3,944)	–	(3,944)
Net written premiums and policy fees	22,737	–	22,737
Net change in reserves for unearned premiums	(1,597)	4	(1,593)
Net earned premiums and policy fees	21,139	4	21,144
Farmers management fees and other related revenues	1,375	–	1,375
Net investment result on Group investments	4,216	–	4,216
Net investment income on Group investments	3,655	–	3,655
Net capital gains/(losses) and impairments on Group investments	561	–	561
Net investment result on unit-linked investments	804	–	804
Net gain/(loss) on divestments of businesses	10	–	10
Other income	713	–	713
Total revenues	28,258	4	28,262
Benefits, losses and expenses			
Insurance benefits and losses, gross of reinsurance	18,804	–	18,804
Less ceded insurance benefits and losses	(2,828)	–	(2,828)
Insurance benefits and losses, net of reinsurance	15,976	–	15,976
Policyholder dividends and participation in profits, net of reinsurance	1,374	–	1,374
Underwriting and policy acquisition costs, net of reinsurance	4,006	(4)	4,002
Administrative and other operating expense	3,819	–	3,819
Interest expense on debt	287	–	287
Interest credited to policyholders and other interest	244	–	244
Total benefits, losses and expenses	25,706	(4)	25,702
Net income before income taxes	2,552	8	2,560
Income tax expense	(555)	(3)	(557)
attributable to policyholders	29	–	29
attributable to shareholders	(583)	(3)	(586)
Net income after taxes	1,997	6	2,003
attributable to non-controlling interests	32	–	32
attributable to shareholders	1,965	6	1,971
in USD			
Basic earnings per share	13.47	0.04	13.51
Diluted earnings per share	13.36	0.04	13.40
in CHF			
Basic earnings per share	12.17	0.04	12.21
Diluted earnings per share	12.07	0.03	12.11

2. Acquisitions and divestments

Transactions in 2012

Acquisitions

On May 25, 2012 the Group increased its shareholding in Zurich Insurance Company South Africa Limited to 84.05 percent by purchasing a 25.1 percent shareholding from Royal Bafokeng Finance (Pty) Limited (RBF) for a purchase price of approximately USD 75 million. With the purchase of the 25.1 percent shareholding the Group's ownership percentage for the Consolidated financial statements is in line with the legal ownership percentage. The put option right granted to RBF in 2010 to sell back its entire shareholding to the Group ceased to exist.

Divestments

On February 3, 2012 the Group sold all of its shares in Escape Premium Collection Proprietary Limited operating in the premium financing and collection business in South Africa for a total consideration, net of immaterial transaction costs, of USD 4 million. An immaterial pre-tax gain on divestment of businesses was realized.

Transactions in 2011

Acquisitions

On October 5, 2011 the Group completed the acquisition of a 51.0 percent participation in a holding company, which owned the life insurance, pension and general insurance operations of Banco Santander S.A. (Santander) in Brazil and Argentina. Between November 2, 2011 and November 4, 2011 the holding company completed the acquisition of a 100 percent participation in the life insurance, pension and general insurance operations of Santander in Chile, Mexico and Uruguay with the Group ultimate ownership of 51.0 percent. The Group obtained control over the acquired entities through its majority of voting rights in the holding company's board of directors and as shareholder, which allows the Group to direct the relevant activities of the insurance operations. As part of the transaction, the Group entered into long-term strategic distribution arrangements with Santander in Latin America. This transaction is in line with the Group's emerging market strategy in both Global Life and General Insurance, and significantly expands the Group's presence in Latin America.

The initial consideration paid by the Group amounted to approximately USD 1.2 billion, subject to a final purchase price adjustment. The Group and Santander also entered into long term loan agreements with one of the acquired companies, whereby total funds of USD 511 million were provided in line with the shareholdings of the Group and Santander. In addition to the initial consideration, both an earn-out component based on the future profitability under the distribution agreements and a protection mechanism for the Group's initial consideration, which is based on a similar future profitability criterion, were agreed. Under the earn-out arrangement, payments are scheduled to be made after every five year period starting January 1, 2011 until December 31, 2035 by the Group, subject to the achievement of the profitability criterion. The earn-out payments which are denominated in local currency, are scheduled to increase over the 25 year period up to a cumulative maximum total amount of USD 1.6 billion, based on acquisition foreign exchange rates. On a present value basis the cumulative maximum earn-out payments amount to USD 334 million. The fair value of the earn-out liability was not reflected in the Consolidated financial statements as of December 31, 2011. The fair value of the earn-out liability as of acquisition date was estimated to amount to USD 99 million and was derived by a probability weighting of different profitability scenarios and by applying a local currency based discount rate.

Total assets of the acquired Latin American insurance operations of Banco Santander S.A. (Santander acquired insurance businesses) were estimated to amount to USD 15.6 billion and total liabilities to USD 13.2 billion. Such amounts were recognized in one line within receivables and other assets and other liabilities in the Consolidated financial statements as of December 31, 2011. In the financial year 2012, total assets, including identifiable intangible assets net of deferred tax liabilities of the insurance operations as of the acquisition date, have been revised to USD 16.0 billion and total liabilities have been revised to USD 13.0 billion (excluding amounts reported in Other Operating Businesses). These amounts are allocated to individual balance sheet line items. The assets and liabilities of the acquired holding companies were already included in the respective balance sheet line items as of December 31, 2011. The Group continues to review these assets and liabilities, in particular the underlying assumptions used to determine intangible assets and technical reserves and are therefore considered provisional. The identifiable intangible assets, net of deferred tax, comprise the distribution agreements in Brazil, Argentina, Mexico and Chile amounting to USD 1.4 billion and the present value of future profits (PVFP) of acquired insurance contracts for the Life businesses in Brazil, Mexico and Chile of USD 239 million. Based on these numbers, the residual goodwill is nil. The distribution agreement and PVFP were determined on the basis of country specific in-force data, transaction projections and assumptions. The non-controlling interests are valued proportionately to the purchase price paid by the Group.

Consolidated financial statements *continued*

The table below shows the main balance sheet line items as of the acquisition date, representing the fair value of the companies acquired.

Business combinations	Table 2.1 in USD millions, per acquisition date			
	Global Life	General Insurance	Other Operating Businesses	Total
Total Group investments	2,629	380	3	3,011
Cash and cash equivalents	127	6	3	136
Equity securities	1,116	139	–	1,255
Debt securities	1,305	209	–	1,514
Real estate held for investment	4	–	–	4
Other loans	77	26	–	103
Investments for unit-linked contracts	9,947	–	–	9,947
Total investments	12,575	380	3	12,958
Reinsurers' share of reserves for insurance contracts	2	228	–	230
Deferred policy acquisition costs	481	53	–	535
Receivables and other assets	275	290	–	565
Deferred tax assets	139	–	–	139
Tangible assets acquired	13,473	951	3	14,427
Identifiable intangible assets, net of deferred tax	1,355	245	–	1,600
Intangible assets acquired	1,355	245	–	1,600
Reserves for insurance contracts	(11,886)	(388)	–	(12,274)
Deferred tax liabilities	–	(7)	–	(7)
Senior and subordinated debt	–	–	(511)	(511)
Other liabilities	(447)	(297)	–	(744)
Liabilities acquired	(12,333)	(692)	(511)	(13,536)
Net assets acquired	2,495	504	(508)	2,491
Non-controlling interests				(1,221)
Total acquisition costs				1,271
Cash consideration				1,156
Fair value of contingent consideration				99
Preliminary purchase price adjustment				16

Acquisition related costs of USD 24 million were included in other administrative expenses for the year ended December 31, 2011, and were excluded from business operating profit.

The financial result for the period from the acquisition dates to March 31, 2012 is included in the Group's consolidated income statement for the six months ended June 30, 2012. The main income statement information for the Santander acquired insurance companies is shown in table 2.2.

Income statement information

Table 2.2

in USD millions

	Global Life	General Insurance	Core business total	Other Operating Businesses	Total
Information since acquisition					
Life insurance deposits	1,151	–	1,151	–	1,151
Gross written premiums and policy fees	884	258	1,142	–	1,142
Total BOP revenues	1,294	159	1,453	(9)	1,444
Business operating profit before non-controlling interests	79	36	114	(25)	89
Business operating profit after non-controlling interests	40	18	58	(13)	46
Net income after taxes before non-controlling interests					65
Net income after taxes after non-controlling interests					33
Pro forma 2011 information ¹					
Gross written premium for 12 months	2,326	677	3,003	n/a	3,003
Net income after taxes for 12 months					372

¹ Based on local GAAP information, as full year IFRS information is not available. The information is deemed to be a reasonable approximation but excludes the amortization of identifiable intangible assets and PVFP.

On September 30, 2011, the Group completed the acquisition of 100 percent of Malaysian Assurance Alliance Berhad (MAA), now known as Zurich Insurance Malaysia Berhad, a composite insurer based in Malaysia, together with 100 percent of four related services companies. The acquisition of MAA is aligned with the Group's emerging-market strategy of expanding the Group's presence in the Asia-Pacific region. The total preliminary purchase price of USD 135 million included an initial consideration of USD 108 million and an anticipated purchase price adjustment amounting to USD 27 million. As of June 30, 2012, out of the initial consideration of USD 108 million, USD 63 million was paid in cash, USD 39 million was placed into escrow and USD 6 million was retained by the Group. The Group is still in the process of finalizing the purchase price adjustment. The amount in escrow and the retention are to be held for a period of two years. The fair value of net tangible assets acquired amounted to USD 113 million and identifiable intangible assets, net of deferred tax, amounted to USD 19 million which mainly consisted of the PVFP from insurance contracts. Residual goodwill amounted to USD 3 million. In addition, the Group has injected approximately USD 135 million of capital into MAA since the completion of the acquisition to meet regulatory capital requirements.

On July 12, 2011, as part of its preparations for local regulatory changes, the Group completed the acquisition of 75.0 percent of 2Plan Group Limited, an independent financial advice firm based in the UK. The total purchase price for the acquisition amounted to zero. The remaining 25.0 percent shareholding continues to be held by members of the founder management team who have options to sell their shareholdings to the Group at a price contingent upon the achievement of future profit targets by 2Plan Group Limited. Based on the final purchase accounting the tangible net assets acquired amounted to negative USD 5 million and identifiable intangible assets, net of deferred tax, amounted to USD 2 million consisting of software and capitalized recruitment director fees. Goodwill amounted to USD 3 million (initially USD 4 million) and reflects the future value from the Group's improved independent financial advisor proposition and technology offering in the UK.

Divestments

On January 12, 2012, the Group sold all of its shares in La Boliviana Ciacruz de Seguros y Reaseguros S.A. and Zurich Boliviana de Seguros Personales S.A. based in Bolivia, general and life insurance companies. As of December 31, 2011 the operations were classified as held for sale and the resulting loss on divestment of businesses amounted to USD 13 million.

On June 30, 2011, the Group sold all of its shares in Lonsec Limited, including three wholly owned subsidiaries, a research and broking company based in Australia, in an effort to focus on its core business lines, recording a pre-tax gain on disposal in aggregate of USD 10 million. On July 1, 2011, the Group entered into business outsourcing agreements for which a pre-tax gain of USD 9 million was realized. Total cash and net assets divested in 2011 were USD 8 million and USD 8 million, respectively. The total consideration received in 2011, net of immaterial transaction costs, amounted to USD 28 million.

Consolidated financial statements *continued*

3. Investments

Table 3.1a

Investment result for total investments	in USD millions, for the six months ended June 30					
	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2012	2011	2012	2011	2012	2011
Cash and cash equivalents	33	29	24	(12)	58	16
Equity securities	912	1,002	3,251	430	4,163	1,432
Debt securities	2,752	2,841	721	145	3,473	2,986
Real estate held for investment	413	424	(288)	34	126	458
Mortgage loans	221	248	(39)	(53)	181	195
Other loans	397	432	3	37	400	469
Investments in associates and joint ventures	6	6	1	(50)	7	(44)
Derivative financial instruments ¹	–	–	47	(99)	47	(99)
Investment result, gross	4,734	4,981	3,720	432	8,454	5,413
Investment expenses	(366)	(393)	–	–	(366)	(393)
Investment result, net	4,368	4,588	3,720	432	8,088	5,020

¹ Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 36 million and USD 13 million for the six months ended June 30, 2012 and 2011, respectively.

Rental operating expenses for real estate held for investment included in investment expenses for total investments amounted to USD 94 million and USD 99 million for the six months ended June 30, 2012 and 2011, respectively.

Table 3.1b

Investment result for Group investments	in USD millions, for the six months ended June 30					
	Net investment income		Net capital gains/ (losses) on investments and impairments		Investment result	
	2012	2011	2012	2011	2012	2011
Cash and cash equivalents	23	26	–	–	23	27
Equity securities	174	212	162	563	336	775
Debt securities	2,611	2,696	511	94	3,121	2,789
Real estate held for investment	254	258	(80)	49	174	307
Mortgage loans	221	248	(39)	(53)	181	195
Other loans	270	326	3	37	273	362
Investments in associates and joint ventures	6	6	1	(50)	7	(44)
Derivative financial instruments ¹	–	–	98	(78)	98	(78)
Investment result, gross for Group investments	3,558	3,772	656	561	4,215	4,333
Investment expenses for Group investments	(119)	(117)	–	–	(119)	(117)
Investment result, net for Group investments	3,440	3,655	656	561	4,096	4,216

¹ Net capital losses on derivatives attributable to cash flow hedge ineffectiveness amounted to USD 36 million and USD 13 million for the six months ended June 30, 2012 and 2011, respectively.

Impairment charges on Group investments included in net capital gains/losses amounted to USD 97 million and USD 152 million, including impairment charges on mortgage loans and other loans of USD 37 million and USD 53 million, for the six months ended June 30, 2012 and 2011, respectively.

Table 3.1c

Investment result for unit-linked contracts

in USD millions, for the six months ended June 30

	Net investment income		Net capital gains/ (losses) on investments		Investment result	
	2012	2011	2012	2011	2012	2011
Cash and cash equivalents	10	2	24	(13)	34	(10)
Equity securities	738	790	3,088	(133)	3,827	657
Debt securities	141	145	211	51	352	196
Real estate held for investment	159	166	(208)	(14)	(49)	151
Other loans	127	106	–	–	127	106
Derivative financial instruments	–	–	(52)	(21)	(52)	(21)
Investment result, gross for unit-linked contracts	1,176	1,209	3,064	(130)	4,240	1,079
Investment expenses for unit-linked contracts	(247)	(276)	–	–	(247)	(276)
Investment result, net unit-linked contracts	929	933	3,064	(130)	3,992	804

Table 3.2

Net capital gains, losses and impairments on equity and debt securities on total investments

in USD millions, for the six months ended June 30

	Equity securities		Debt securities		Total	
	2012	2011	2012	2011	2012	2011
Securities at fair value through profit or loss:	3,197	(34)	352	95	3,549	61
Net capital gains/(losses) on Group investments	109	99	141	44	250	143
<i>of which:</i>						
<i>Trading securities</i>	–	23	3	–	2	23
<i>Securities designated at fair value through profit or loss</i>	109	76	139	44	248	120
Net capital gains/(losses) for unit-linked contracts	3,088	(133)	211	51	3,299	(82)
Available-for-sale securities:	53	464	369	50	423	514
Realized capital gains on Group investments	199	613	672	549	871	1,162
Realized capital losses on Group investments	(95)	(63)	(293)	(486)	(388)	(549)
Impairments on Group investments	(51)	(85)	(10)	(14)	(61)	(99)
Total net capital gains/(losses) and impairments	3,251	430	721	145	3,972	575

Consolidated financial statements *continued*

Details of total investments by category	Table 3.3a		Total investments	
	as of		06/30/12	12/31/11
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	9,773	3.1	10,048	3.4
Equity securities:				
Fair value through profit or loss	96,667	30.6	83,116	27.8
<i>of which:</i>				
<i>Trading securities</i>	433	0.1	438	0.1
<i>Securities designated at fair value through profit or loss</i>	96,234	30.5	82,678	27.7
Available-for-sale	8,133	2.6	7,973	2.7
Total equity securities	104,800	33.2	91,088	30.5
Debt securities:				
Fair value through profit or loss	20,276	6.4	19,845	6.6
<i>of which:</i>				
<i>Trading securities</i>	42	0.0	50	0.0
<i>Securities designated at fair value through profit or loss</i>	20,235	6.4	19,795	6.6
Available-for-sale	133,634	42.3	129,306	43.2
Held-to-maturity	4,946	1.6	5,535	1.9
Total debt securities	158,857	50.3	154,686	51.7
Real estate held for investment	11,925	3.8	12,365	4.1
Mortgage loans	10,503	3.3	11,058	3.7
Other loans	19,961	6.3	19,582	6.5
Investments in associates and joint ventures	163	0.1	161	0.1
Total investments	315,983	100.0	298,988	100.0

Details of Group investments by category

Table 3.3b

as of

	Group investments			
	06/30/12		12/31/11	
	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	8,451	4.3	8,768	4.5
Equity securities:				
Fair value through profit or loss	4,210	2.1	3,253	1.7
<i>of which:</i>				
<i>Trading securities</i>	433	0.2	438	0.2
<i>Securities designated at fair value through profit or loss</i>	3,777	1.9	2,816	1.4
Available-for-sale	8,133	4.1	7,973	4.1
Total equity securities	12,343	6.2	11,226	5.8
Debt securities:				
Fair value through profit or loss	8,511	4.3	8,020	4.1
<i>of which:</i>				
<i>Trading securities</i>	42	0.0	50	0.0
<i>Securities designated at fair value through profit or loss</i>	8,469	4.3	7,971	4.1
Available-for-sale	133,634	67.2	129,306	66.5
Held-to-maturity	4,946	2.5	5,535	2.8
Total debt securities	147,091	74.0	142,861	73.5
Real estate held for investment	8,157	4.1	8,468	4.4
Mortgage loans	10,503	5.3	11,058	5.7
Other loans	12,090	6.1	11,842	6.1
Investments in associates and joint ventures	163	0.1	161	0.1
Total Group investments	198,799	100.0	194,385	100.0

Cash and investments with a carrying value of USD 6,739 million and USD 6,227 million were deposited with regulatory authorities as of June 30, 2012, and December 31, 2011, respectively.

Securities under security lending and repurchase agreements

As of June 30, 2012 and December 31, 2011, respectively, investments included USD 7,398 million and USD 6,298 million of loaned securities. These loaned securities were mainly debt securities. Liabilities for cash collateral received for securities lending comprised USD 391 million and USD 159 million as of June 30, 2012 and December 31, 2011, respectively. Non-cash collateral received for loaned securities comprised mainly equity and debt securities and amounted to USD 7,528 million and USD 6,474 million as of June 30, 2012 and December 31, 2011, respectively. The Group can sell or repledge the collateral only in the event of default by a counterparty.

As of June 30, 2012 and December 31, 2011, respectively, debt securities with a carrying value of USD 1,566 million and USD 1,807 million have been sold to financial institutions under repurchase agreements. These securities continue to be recognized as investments in the Group's consolidated balance sheets. Obligations to repurchase these securities amounted to USD 1,556 million and USD 1,794 million as of June 30, 2012 and December 31, 2011, respectively.

The Group retains the rights to the risks and the benefits of loaned securities and securities under repurchase agreements. These risks and benefits include changes in market values and income earned.

Consolidated financial statements *continued*

Details of investments held for unit-linked contracts	Table 3.3c		Investments for unit-linked contracts			
	as of		06/30/12		12/31/11	
	USD millions	% of total	USD millions	% of total	USD millions	% of total
Cash and cash equivalents	1,322	1.1	1,280	1.2		
Equity securities	92,457	78.9	79,862	76.3		
Debt securities	11,766	10.0	11,825	11.3		
Real estate	3,768	3.2	3,898	3.7		
Other loans	7,871	6.7	7,739	7.4		
Total investments for unit-linked contracts	117,183	100.0	104,603	100.0		

Investments held under unit-linked investments contracts are classified as designated at fair value through profit or loss.

Accrued interest on unit-linked investments disclosed under accrued investment income amounted to USD 201 million and USD 303 million as of June 30, 2012 and December 31, 2011, respectively.

Net unrealized gains/(losses) on Group investments included in other comprehensive income	Table 3.4		Total	
	in USD millions, as of		06/30/12	12/31/11
Equity securities: available-for-sale			1,470	1,072
Debt securities: available-for-sale			5,662	3,941
Other			301	295
Less: amount of net unrealized gains/(losses) on investments attributable to:				
Life policyholder dividends and other policyholder liabilities			(2,034)	(1,349)
Life deferred acquisition costs and present value of future profits			(244)	(97)
Deferred income taxes			(1,067)	(834)
Minority interests			(9)	3
Total¹			4,078	3,032

¹ Net unrealized gains/losses include net gains arising on cash flow hedges of USD 251 million and USD 232 million as of June 30, 2012 and December 31, 2011, respectively.

4. Reserves for insurance contracts and reinsurers' share of reserves for insurance contracts

Table 4.1

Reserves for insurance contracts	in USD millions, as of					
	Gross		Ceded		Net	
	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11
Reserves for losses and loss adjustment expenses	67,027	67,525	(12,130)	(12,401)	54,897	55,124
Reserves for unearned premiums	19,907	16,567	(2,868)	(2,332)	17,039	14,235
Future life policyholders' benefits	79,485	79,314	(2,384)	(2,572)	77,101	76,742
Policyholders' contract deposits and other funds	18,749	18,251	(2,158)	(2,181)	16,590	16,070
Reserves for unit-linked contracts	70,301	59,154	–	–	70,301	59,154
Total reserves for insurance contracts¹	255,469	240,811	(19,541)	(19,486)	235,928	221,325

¹ The total reserves for insurance contracts ceded are gross of allowances for uncollectible amounts of USD 110 million and USD 125 million as of June 30, 2012 and December 31, 2011, respectively.

Table 4.2

Development of reserves for losses and loss adjustment expenses	in USD millions					
	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	67,525	68,107	(12,401)	(12,093)	55,124	56,014
Losses and loss adjustment expenses incurred:						
Current year	13,065	13,966	(1,375)	(2,430)	11,690	11,536
Prior years	(446)	(581)	72	(86)	(374)	(667)
Total incurred	12,619	13,385	(1,303)	(2,515)	11,316	10,869
Losses and loss adjustment expenses paid:						
Current year	(3,814)	(3,964)	226	340	(3,588)	(3,625)
Prior years	(9,099)	(9,447)	1,362	1,575	(7,737)	(7,872)
Total paid	(12,914)	(13,411)	1,588	1,914	(11,326)	(11,497)
Acquisitions/(divestments) and transfers ¹	48	(2)	(21)	–	28	(1)
Foreign currency translation effects	(251)	2,152	6	(268)	(245)	1,884
As of June 30	67,027	70,231	(12,130)	(12,962)	54,897	57,268

¹ The 2012 net movement relates to the Santander acquired insurance businesses (see note 2).

The Group establishes loss reserves, which are estimates of future payments of reported and unreported claims for losses and related expenses, with respect to insured events that have occurred. Reserving is a complex process dealing with uncertainty, requiring the use of informed estimates and judgments. Any changes in estimates or judgments are reflected in the results of operations in the period in which estimates and judgments are changed.

Significant delays may occur in the notification and settlement of claims, and a substantial measure of experience and judgment is involved in assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty as of the balance sheet date. The reserves for losses and loss adjustment expenses are determined on the basis of information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

Table 4.2 shows the development of reserves for losses and loss adjustment expenses during the first six months of 2012. The decrease of USD 227 million in total net reserves is mostly driven by USD 374 million of favorable reserve development emerging from reserves established in prior years from various regions and lines of business. Favorable development was especially experienced in Switzerland's motor line of business, in the UK and in North America spread over many lines of business.

Consolidated financial statements *continued*

Table 4.3

Development of future life policyholders' benefits	in USD millions					
	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	79,314	79,315	(2,572)	(2,423)	76,742	76,891
Premiums	4,160	4,599	(266)	(253)	3,894	4,346
Claims	(4,211)	(4,812)	207	213	(4,005)	(4,599)
Fee income and other expenses	(1,229)	(990)	153	9	(1,075)	(981)
Interest and bonuses credited to policyholders	1,533	1,365	(75)	(50)	1,458	1,315
Change in assumptions	(51)	(1)	166	(4)	115	(5)
Acquisitions/transfers ¹	1,038	184	(3)	–	1,035	184
(Decreases)/increases recorded in other comprehensive income	124	(24)	–	–	124	(24)
Foreign currency translation effects	(1,194)	6,263	6	(83)	(1,188)	6,179
As of June 30	79,485	85,899	(2,384)	(2,593)	77,101	83,306

¹ The 2012 net movement relates to the Santander acquired insurance businesses (see note 2). The 2011 movement mainly includes reclassifications of USD 212 million transferred from other liabilities to future life policyholders' benefits net of USD (27) million transferred to liabilities for investment contracts (see note 1 of the Consolidated financial statements 2011).

Table 4.4

Policyholders' contract deposits and other funds gross		06/30/12	12/31/11
in USD millions, as of			
Annuities		1,273	1,320
Universal life and other contracts		11,847	11,577
Policyholder dividends		5,628	5,355
Total		18,749	18,251

Table 4.5

Development of policyholders' contract deposits and other funds	in USD millions					
	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	18,251	17,430	(2,181)	(2,246)	16,070	15,184
Premiums	605	714	(14)	(28)	591	686
Claims	(615)	(698)	98	103	(517)	(595)
Fee income and other expenses	(119)	(173)	(24)	7	(144)	(166)
Interest and bonuses credited to policyholders	110	439	(39)	(40)	72	399
Change in assumptions	–	(1)	–	–	–	(1)
Acquisitions/transfers ¹	122	–	–	–	122	–
(Decrease)/increase recorded in other comprehensive income	589	(383)	–	–	589	(383)
Foreign currency translation effects	(194)	829	1	(2)	(192)	828
As of June 30	18,749	18,158	(2,158)	(2,206)	16,590	15,952

¹ The 2012 net movement mainly relates to the Santander acquired insurance businesses (see note 2).

Table 4.6

Development of reserves for unit-linked contracts	in USD millions					
	Gross		Ceded		Net	
	2012	2011	2012	2011	2012	2011
As of January 1	59,154	61,786	–	–	59,154	61,786
Premiums	5,571	4,748	–	–	5,571	4,748
Claims	(5,469)	(4,612)	–	–	(5,469)	(4,612)
Fee income and other expenses	(841)	(834)	–	–	(841)	(834)
Interest and bonuses credited/(charged) to policyholders	2,620	820	–	–	2,620	820
Acquisitions/transfers ¹	10,091	120	–	–	10,091	120
Foreign currency translation effects	(825)	2,452	–	–	(825)	2,452
As of June 30	70,301	64,479	–	–	70,301	64,479

¹ The 2012 net movement relates to the Santander acquired insurance businesses (see note 2) and USD 260 million transferred from liabilities for investment contracts partly offset by USD (112) million transferred to liabilities for investment contracts (see note 1). The 2011 movement relates to the reclassification of liabilities for investment contracts to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2011).

5. Liabilities for investment contracts

Table 5.1			
Liabilities for investment contracts	in USD millions, as of		
		06/30/12	12/31/11
	Liabilities related to unit-linked investment contracts	45,520	44,220
	Liabilities related to investment contracts (amortized cost)	824	834
	Liabilities related to investment contracts with DPF	5,562	5,607
Total	51,905	50,661	

Unit-linked investment contracts issued by the Group are recorded at a value reflecting the returns on investment funds which include selected equities, debt securities and derivatives. Policyholders bear the full risk of the returns on these investments.

The value of liabilities related to investment contracts at amortized cost is based on a discounted cash flow valuation technique. The initial valuation of the discount rate is determined by the current market assessment of the time value of money and risk specific to the liability.

Table 5.2			
Development of liabilities for investment contracts	in USD millions		
		2012	2011
	As of January 1	50,661	50,667
	Premiums	3,269	3,078
	Claims	(3,211)	(2,869)
	Fee income and other expenses	(302)	(305)
	Interest and bonuses charged/(credited) to policyholders	1,744	349
	Transfers ¹	(148)	150
	Increase/(decrease) recorded in other comprehensive income	(1)	(4)
	Foreign currency translation effects	(107)	2,460
As of June 30	51,905	53,526	

¹ The 2012 movement mainly includes USD (260) million transferred to reserves for unit-linked contracts partly offset by USD 112 million transferred from reserves for unit-linked contracts (see note 1). The 2011 movement includes USD 246 million transferred from other liabilities to liabilities for investment contracts and USD 27 million transferred from future life policyholders' benefits to liabilities for investment contracts offset by USD (120) million transferred from liabilities for investment contracts to reserves for unit-linked contracts (see note 1 of the Consolidated financial statements 2011).

Consolidated financial statements *continued*

6. Gross and ceded insurance revenues and expenses

Table 6.1

Insurance benefits and losses	in USD millions, for the six months ended June 30	Gross		Ceded		Net	
		2012	2011	2012	2011	2012	2011
Losses and loss adjustment expenses		12,619	13,385	(1,303)	(2,515)	11,316	10,869
Life insurance death and other benefits		4,624	5,252	(237)	(224)	4,386	5,028
Change in future life policyholders' benefits		284	167	183	(88)	468	78
Total insurance benefits and losses		17,527	18,804	(1,356)	(2,828)	16,170	15,976

Table 6.2

Policyholder dividends and participation in profits	in USD millions, for the six months ended June 30	Gross		Ceded		Net	
		2012	2011	2012	2011	2012	2011
Change in policyholders' contract deposits and other funds		518	443	(19)	(1)	498	443
Change in reserves for unit-linked products		2,582	627	–	–	2,582	627
Change in liabilities for investment contracts – unit-linked		1,492	234	–	–	1,492	234
Change in liabilities for investment contracts – other		109	108	–	–	109	108
Change in unit-linked liabilities related to UK capital gains tax		(91)	(37)	–	–	(91)	(37)
Total policyholder dividends and participation in profits		4,610	1,374	(19)	(1)	4,591	1,374

7. Deferred policy acquisition costs and deferred origination costs

Table 7.1

Development of deferred policy acquisition costs	Table 7.1									
	in USD millions		General Insurance		Global Life		Other segments ¹		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
As of January 1	3,500	3,426	13,011	12,686	353	169	16,864	16,281		
Acquisition costs deferred	1,642	1,576	923	979	457	301	3,021	2,856		
Amortization	(1,459)	(1,402)	(511)	(524)	(453)	(263)	(2,422)	(2,189)		
Amortization charged/ (credited) to other comprehensive income	–	–	(97)	33	–	–	(97)	33		
Acquisitions/transfers ²	56	–	476	–	–	–	532	–		
Foreign currency translation effects	(38)	129	(122)	656	–	–	(160)	784		
As of June 30	3,701	3,729	13,680	13,829	358	207	17,739	17,765		

¹ Net of eliminations from inter-segment transactions.

² The 2012 movement mainly relates to the Santander acquired insurance businesses (see note 2) partly offset by USD (6) million transferred to deferred origination costs (see note 1).

As of June 30, 2012 and December 31, 2011, deferred policy acquisition costs related to non-controlling interests were USD 991 million and USD 347 million, respectively.

Table 7.2

Development of deferred origination costs	in USD millions	
	2012	2011
As of January 1	824	866
Origination costs deferred	40	59
Amortization	(85)	(72)
Transfers ¹	6	–
Foreign currency translation effects	1	38
As of June 30	785	891

¹ The 2012 movement consists of USD 6 million transferred from deferred policy acquisition costs (see note 1).

Consolidated financial statements *continued*

8. Goodwill and other intangible assets

Table 8.1

Intangible assets – current period	in USD millions						
	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2012	2,186	2,519	2,579	1,025	4,210	190	12,709
Less: accumulated amortization/impairments	(126)	(1,640)	(430)	–	(2,593)	(86)	(4,876)
Net carrying value as of January 1, 2012	2,060	879	2,149	1,025	1,616	104	7,834
Additions and transfers	–	327	2,050	–	203	–	2,579
Divestments and transfers	–	–	–	–	(2)	–	(2)
Amortization	–	(89)	(97)	–	(205)	(7)	(397)
Amortization charged/(credited) to other comprehensive income	–	(51)	–	–	–	–	(51)
Impairments	–	–	–	–	(7)	–	(7)
Foreign currency translation effects	(13)	(13)	(119)	–	(13)	–	(158)
Net carrying value as of June 30, 2012	2,046	1,053	3,984	1,025	1,594	97	9,799
Plus: accumulated amortization/impairments	125	1,778	515	–	2,762	91	5,271
Gross carrying value as of June 30, 2012	2,171	2,831	4,499	1,025	4,356	188	15,070

As of June 30, 2012, intangible assets relating to non-controlling interests were USD 251 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,877 million for distribution agreements and USD 6 million for software.

Long term strategic distribution arrangements over a 25 year period with Banco Santander S.A. in Latin America have significantly expanded the Group's presence in this emerging market and have resulted in new distribution agreements totalling USD 2,032 million within both the Global Life and General Insurance operations in Mexico, Brazil, Chile and Argentina. This transaction has also resulted in additions to the PVFP amounting to USD 327 million in Mexico, Brazil and Chile.

New distribution agreements in Global Life operations in the Middle East and in General Insurance operations in Brazil, to gain access to the mass consumer market, provided an additional USD 18 million.

Table 8.2

Intangible assets by segment – current period	in USD millions, as of June 30, 2012						
	Goodwill	PVFP	Distribution agreements	Attorney- in-fact relationships	Software	Other intangible assets	Total
General Insurance	821	–	846	–	562	78	2,308
Global Life	406	1,053	3,138	–	349	19	4,964
Farmers	819	–	–	1,025	391	–	2,236
Other Operating Businesses	–	–	–	–	291	–	291
Non-Core Businesses	–	–	–	–	1	–	1
Net carrying value as of June 30, 2012	2,046	1,053	3,984	1,025	1,594	97	9,799

in USD millions		Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
Gross carrying value as of January 1, 2011		2,241	2,528	2,607	1,025	3,967	195	12,563
Less: accumulated amortization/impairments		(136)	(1,622)	(326)	–	(2,344)	(76)	(4,505)
Net carrying value as of January 1, 2011		2,104	906	2,281	1,025	1,623	119	8,059
Additions and transfers		9	–	15	–	194	–	217
Amortization		–	(55)	(64)	–	(200)	(7)	(326)
Amortization charged to other comprehensive income		–	25	–	–	–	–	25
Impairments		–	–	–	–	(20)	–	(20)
Foreign currency translation effects		71	53	183	–	81	4	392
Net carrying value as of June 30, 2011		2,184	929	2,415	1,025	1,676	116	8,346
Plus: accumulated amortization/impairments		140	1,709	417	–	2,459	85	4,809
Gross carrying value as of June 30, 2011		2,324	2,638	2,832	1,025	4,135	202	13,155

As of June 30, 2011, intangible assets relating to non-controlling interests were USD 149 million for the present value of future profits (PVFP) of acquired insurance contracts, USD 1,120 million for distribution agreements and USD 6 million for software.

Additions to goodwill resulted in USD 2 million relating to the acquisition of PT Zurich Topas Life (formerly PT Mayapada Life) and USD 6 million relating to earn-out payments to Deutsche Bank Group for the acquisition of Zurich Life and Pensions S.p.A., Italy (formerly DWS Vita S.p.A.).

Additions to distribution agreements relate to a new distribution agreement between the Group's Turkish operations A.Ş. and Fortis bank.

in USD millions, as of December 31, 2011		Goodwill	PVFP	Distribution agreements	Attorney-in-fact relationships	Software	Other intangible assets	Total
General Insurance		827	–	527	–	548	83	1,985
Global Life		413	879	1,622	–	372	21	3,308
Farmers		819	–	–	1,025	409	–	2,254
Other Operating Businesses		–	–	–	–	286	–	286
Non-Core Businesses		–	–	–	–	1	–	1
Net carrying value as of December 31, 2011		2,060	879	2,149	1,025	1,616	104	7,834

Consolidated financial statements *continued*

9. Restructuring provisions

Table 9		2012	2011
Restructuring provisions	in USD millions		
	As of January 1	254	155
	Provisions made during the period	21	79
	Increase of provisions set up in prior years	18	4
	Provisions used during the period	(74)	(41)
	Provisions reversed during the period	(3)	–
	Foreign currency translation effects	(2)	7
	As of June 30	214	204

The main restructuring programs impacted several European countries within the General Insurance and Global Life operations with estimated costs of USD 21 million for restructuring announced in the current year and USD 18 million for increases of provisions for restructuring which have been initiated in prior years.

10. Income taxes

Table 10.1

in USD millions, for the six months ended June 30		2012	2011
Income tax expense – current/deferred split	Current	619	641
	Deferred	58	(84)
	Total income tax expense	677	557

Table 10.2

in USD millions, for the six months ended June 30		2012	2011
Income tax expense – policyholder/shareholder attribution	Total income tax expense/(benefit) attributable to policyholders	22	(29)
	Total income tax expense attributable to shareholders	655	586
	Total income tax expense	677	557

The Group is required to record taxes on policyholder earnings for life insurance policyholders in certain jurisdictions. Accordingly, the income tax expense or benefit attributable to these life insurance policyholder earnings is included in income tax expense. In certain jurisdictions an accrual for future policy fees that will cover the tax charge is included in insurance benefits and losses.

Table 10.3

in USD millions, for the six months ended June 30		Rate	2012	Rate	2011
Expected and actual income tax expense	Net income before income taxes		2,909		2,560
	Less: income tax (expense)/benefit attributable to policyholders		(22)		29
	Net income before income taxes attributable to shareholders		2,887		2,589
	Expected income tax expense attributable to shareholders computed at the Swiss statutory tax rate	22.0%	635	22.0%	569
	Increase/(reduction) in taxes resulting from:				
	<i>Tax rate differential in foreign jurisdictions</i>		122		96
	<i>Tax exempt and lower taxed income</i>		(31)		(53)
	<i>Non-deductible expenses</i>		34		68
	<i>Tax losses previously unrecognized or no longer recognized</i>		7		27
	<i>Prior year adjustments and other</i>		(113)		(122)
	Actual income tax expense attributable to shareholders	22.7%	655	22.6%	586
	Plus: income tax expense/(benefit) attributable to policyholders		22		(29)
	Actual income tax expense	23.3%	677	21.8%	557

The table above sets out the factors that cause the actual income tax expense to differ from the expected expense computed by applying the Swiss Statutory tax rate of 22.0 percent, which is the rate applicable in the jurisdiction where the ultimate parent company is resident.

Consolidated financial statements *continued*

11. Senior and subordinated debt

Table 11.1		06/30/12	12/31/11	
Senior and subordinated debt	in USD millions, as of			
	Senior debt			
	Zurich Finance (USA), Inc.	4.50% EUR 1 billion notes, due September 2014 ^{2,6,7}	1,282	1,312
		4.875% EUR 800 million notes, due April 2012 ^{1,6}	–	1,037
		6.50% EUR 600 million notes, due October 2015 ^{3,6,7}	758	776
		Euro Commercial Paper Notes	680	400
	Zurich Finance (Luxembourg) S.A.	3.25% USD 750 million notes, due September 2013 ^{5,6,7}	760	764
	Zurich Insurance Company Ltd	3.75% CHF 500 million notes, due September 2013 ⁶	525	531
		2.25% CHF 500 million notes, due July 2017 ⁶	523	529
		2.875% CHF 250 million notes, due July 2021 ⁶	259	262
		2.375% CHF 525 million notes, due November 2018 ⁶	547	553
		1.50% CHF 400 million notes, due June 2019 ^{5,6,7}	420	–
		3.375% EUR 500 million notes, due June 2022 ^{5,6,7}	630	–
	Zurich Santander Insurance America S.L.	7.5% EUR 182 million loan, due December 2035	231	236
	Other	Various debt instruments payable in more than 1 year	113	141
	Senior debt		6,729	6,541
	Subordinated debt			
	Zurich Insurance Company Ltd	12.0% EUR 143 million perpetual capital notes ⁶	180	184
		7.5% EUR 425 million notes, due July 2039 ⁶	534	547
		4.25% CHF 700 million perpetual notes ⁶	728	735
		4.625% CHF 500 million perpetual notes ⁶	519	525
		8.25% USD 500 million perpetual capital notes ⁶	494	–
	Zurich Finance (UK) plc	6.625% GBP 450 million perpetual notes ^{4,6}	697	690
	Zurich Finance (USA), Inc.	5.75% EUR 500 million notes, due October 2023 ^{1,6}	626	641
		4.5% EUR 500 million notes, due June 2025 ^{5,6,7}	676	688
	ZFS Finance (USA) Trust II	Series II 6.45% USD 700 million Trust Preferred Securities (ECAPS), due December 2065	675	674
	ZFS Finance (USA) Trust IV	Series IV 5.875% USD 500 million Trust Preferred Securities, due May 2062	–	250
	ZFS Finance (USA) Trust V	Series V 6.5% USD 1 billion Trust Preferred Securities, due May 2067	497	497
	Other	Various debt instruments payable in more than 1 year	72	44
	Subordinated debt		5,700	5,476
	Total senior and subordinated debt		12,429	12,017

¹ The bond is economically hedged, but hedge accounting treatment has not been applied.

² The bond is part of a qualifying cash flow hedge (80 percent of the total) and fair value hedge (20 percent of the total).

³ The bond is part of a qualifying cash flow hedge (100 percent).

⁴ The holders of these notes benefit from the Replacement Capital Covenant which states that if Series IV and V Fixed/Floating Trust Preferred Securities, issued by ZFS Finance (USA) Trusts IV and V, are called before 2042 and 2047 respectively, the Group will issue a replacement debt instrument with terms and provisions that are as or more equity-like than the replaced notes.

⁵ These bonds are part of qualifying fair value hedges (100 percent).

⁶ Issued under the Group's Euro Medium Term Note Programme (EMTN Programme).

⁷ The Group applied the cash flow hedge methodology to hedge the foreign currency exposure and deferred the attributable basis spreads in shareholders' equity, whereas the fair value hedge methodology was used to hedge the interest rate exposure with changes in the fair value being recorded through the income statement.

None of the debt instruments listed above were in default as of June 30, 2012 or December 31, 2011.

Senior and subordinated debt

To facilitate the issuance of debt, the Group has in place a Euro Medium Term Note Programme (EMTN Programme) allowing for the issuance of senior and subordinated notes up to a maximum of USD 18 billion. All issuances under this programme are either issued or guaranteed by Zurich Insurance Company Ltd. The Group has also issued debt instruments outside this programme.

i) Senior debt

Senior debt amounted to USD 6,729 million and USD 6,541 million as of June 30, 2012 and December 31, 2011, respectively. The increase was primarily due to two notes issued in June 2012 by Zurich Insurance Company Ltd under its EMTN Programme: a 1.5% CHF 400 million senior note was placed into the Swiss domestic market; and a 3.375% EUR 500 million senior note was placed into the Euromarket. In April, 2012 a 4.875% EUR 800 million senior note issued in 2009 by Zurich Finance (USA) matured. In addition, Euro Commercial Paper Notes increased by a net USD 280 million.

ii) Subordinated debt

Subordinated debt securities are obligations of the Group which, in case of liquidation of the Group, rank junior to all present and future senior indebtedness and certain other obligations of the Group.

Subordinated debt amounted to USD 5,700 million and USD 5,476 million as of June 30, 2012 and December 31, 2011, respectively. The increase is mainly the result of 8.25% USD 500 million perpetual capital notes issued in January 2012 by Zurich Insurance Company Ltd under its EMTN Programme into the Asian market, partially offset by the early redemption in June 2012 of the remaining USD 250 million of 5.875% USD 500 million Series IV Fixed/Floating Trust Preferred Securities issued by ZFS Finance (USA) Trust IV in May 2007. Zurich exercised its option to redeem these securities early, after the first call date.

Consolidated financial statements *continued*

Table 11.2

Description and features of significant subordinated debt	Table 11.2			
	Description	Coupon conditions	Call/ redemption date	Redemption conditions
	12.00% EUR 143 million, perpetual capital notes	12.00% payable annually up to July 15, 2014 and then reset quarterly to 3-month EURIBOR plus 10.33%.	Quarterly on or after July 15, 2014	Redeemable in whole at par plus any accrued interest.
	7.5% EUR 425 million notes, due July 2039	7.5% payable annually up to July 24, 2019 and then reset quarterly to 3-month EURIBOR plus 5.85%.	Quarterly on or after July 24, 2019	Redeemable in whole or in part at par plus any accrued interest.
	4.25% CHF 700 million, perpetual notes	4.25% payable annually up to May 26, 2016 and then reset quarterly to 3-month CHF-Libor plus 3.046%.	Quarterly on or after May 26, 2016	Redeemable in whole or in part at par plus any accrued interest.
	4.625% CHF 500 million, perpetual notes	4.625% payable annually up to May 16, 2018 and then reset to the prevailing 7 year CHF mid swap rate plus 2.691%.	Annually on or after May 16, 2018	Redeemable in whole or in part at par plus any accrued interest.
	8.25% USD 500 million, perpetual capital notes	8.25% per annum payable quarterly until January 18, 2018. Resets to the 6-Year mid swap rate plus 6.84% until January 18, 2024. Resets thereafter every 6 years to the 6-Year mid swap rate plus 7.84%.	Quarterly on or after January 18, 2018	Redeemable in whole or in part at par plus any accrued interest.
	6.625% GBP 450 million, perpetual notes	6.625% payable annually up to October 2, 2022 and then reset every 5 years to the reset rate of interest plus 2.85%. ¹	Every five years on or after October 2, 2022	Redeemable in whole every five years at par plus any accrued interest.
	5.75% EUR 500 million notes, due October 2023	5.75% payable annually up to October 2, 2013 and then reset quarterly to 3-month EURIBOR plus 2.67%.	Quarterly on or after October 2, 2013	Redeemable in whole at par plus any accrued interest.
	4.5% EUR 500 million notes, due June 2025	4.5% payable annually up to June 15, 2015 and then reset quarterly to 3-month EURIBOR plus 2.20%.	Quarterly on or after June 15, 2015	Redeemable in whole at par plus any accrued interest.
	Series II 6.45% USD 700 million Fixed/Adjustable Trust Preferred Securities (ECAPS), due December 2065	6.45% payable semi-annually until June 15, 2016 and then reset quarterly to the adjustable rate plus 2.00%. ²	Quarterly on or after June 15, 2016	Redeemable in whole or in part at par plus any accrued interest.
	Series V 6.5% USD 1 billion Fixed/Floating Trust Preferred Securities, due May 2067	6.5% payable semi-annually until May 9, 2017 and then reset quarterly to 3-month LIBOR plus 2.285%.	Quarterly on or after May 9, 2017	Redeemable in whole or in part at par plus any accrued interest.

¹ Reset rate of interest is equal to the gross redemption yield on the benchmark five-year Gilt as determined by the Calculation Bank.

² Adjustable rate is equal to the greatest of (i) the 3-month LIBOR Rate; (ii) the 10-year Treasury CMT (Constant Maturity Treasury) Rate; and (iii) the 30-year Treasury CMT Rate, subject to a maximum under (ii) and (iii) of 13% for Series II.

Table 11.3					
Maturity schedule of outstanding debt	in USD millions, as of	06/30/12		12/31/11	
		Carrying value	Undiscounted cash flow	Carrying value	Undiscounted cash flow
		< 1 year	680	1,269	1,437
1 to 2 years	1,285	1,866	1,305	1,823	
2 to 3 years	1,417	1,943	1,324	1,811	
3 to 4 years	758	1,208	917	1,319	
4 to 5 years	–	377	–	376	
5 to 10 years	2,401	4,096	1,345	2,838	
> 10 years	5,888	8,152	5,689	7,625	
Total		12,429	18,911	12,017	17,825

Debt maturities reflect original contractual dates without taking early redemption options into account. For call/redemption dates, see table 11.2. The total notional amount of debt due in each period is not materially different from the total carrying amount disclosed in table 11.3. Undiscounted cash flows include interest and principal cash flows on debt outstanding as of June 30, 2012 and December 31, 2011. All debt is assumed to mature within 20 years of the balance sheet date without refinancing. Floating interest rates are assumed to remain constant as of June 30, 2012 and December 31, 2011. The aggregated cash flows are translated into U.S. dollars at end-of-period rates.

Table 11.4				
Interest expense on debt	in USD millions, for the six months ended June 30	2012		2011
		Senior debt	117	130
Subordinated debt	176	157	157	
Total		293	287	287

Interest expense on debt

Interest expense on debt amounted to USD 293 million and USD 287 million as of June 30, 2012 and 2011, respectively. The higher interest expense was mainly due to the issuance of new subordinated notes in March 2011 and January 2012. By contrast interest expense on senior debt decreased as a result of the positive impact of refinancing the 3.875% CHF 1 billion notes in July 2011 and the 3.5% CHF 300 million notes in November 2011 at lower rates as well as the maturity of the 4.875% EUR 800 million notes in April 2012. This reduction is partially offset by the interest expense related to the 7.5% EUR 182 million senior loan to support the Group's business in Latin America.

Credit facilities

On October 31, 2011 the Group refinanced its revolving credit facility of USD 3 billion, which would have expired in September 2012, by a new syndicated revolving credit facility of EUR 2.5 billion maturing in 2018 at the latest. Zurich Insurance Company Ltd and Farmers Group, Inc. are guarantors of the facility and can draw up to EUR 2.3 billion and EUR 200 million, respectively. No borrowings were outstanding under this facility as of June 30, 2012 or December 31, 2011.

In addition, the Group has access to four other revolving credit facilities totaling USD 441 million expiring in 2014. No borrowings were outstanding under these four facilities as of June 30, 2012 or December 31, 2011.

Consolidated financial statements *continued*

12. Earnings per share

Table 12
for the six months ended June 30

Earnings per share

	Net income attributable to common shareholders (in USD millions) ¹	Weighted average number of shares	Per share (USD)	Per share (CHF) ²
2012				
Basic earnings per share	2,218	146,402,512	15.15	14.06
Effect of potentially dilutive shares related to share-based compensation plans		755,569	(0.08)	(0.07)
Diluted earnings per share	2,218	147,158,081	15.07	13.99
2011				
Basic earnings per share	1,967	145,592,692	13.51	12.21
Effect of potentially dilutive shares related to share-based compensation plans		1,181,530	(0.11)	(0.10)
Diluted earnings per share	1,967	146,774,222	13.40	12.11

¹ Excludes the net income attributable to preferred shareholders of USD 4 million for the six months ended June 30, 2011.

² The translation from USD to CHF is shown for information purposes only and has been calculated at the Group's average exchange rates for the six months ended June 30, 2012 and 2011, respectively.

13. Legal proceedings and regulatory investigations

The Group and its subsidiaries are continuously involved in legal proceedings, claims and regulatory investigations arising, for the most part, in the ordinary course of their business operations. The Group's business is subject to extensive supervision, and companies in the Group are in regular contact with various regulatory authorities. In addition, certain companies within the Group are engaged in the following legal proceedings and regulatory investigations.

An action entitled Fuller-Austin Asbestos Settlement Trust, et al. v. Zurich American Insurance Company (ZAIC), et al., was filed in May 2004 in the Superior Court for San Francisco County, California. Three other similar actions were filed in 2004 and 2005 and have been coordinated with the Fuller-Austin action (collectively, the Fuller-Austin Case). In addition to ZAIC and four of its insurance company subsidiaries, Zurich Insurance Company Ltd and Orange Stone Reinsurance Dublin (Orange Stone) are named as defendants. The plaintiffs, who are historical policyholders of the Home Insurance Company (Home), plead claims for, inter alia, fraudulent transfer, tortious interference, unfair business practices, alter ego and agency liability relating to the recapitalization of Home, which occurred in 1995 following regulatory review and approval. The plaintiffs allege that pursuant to the recapitalization and subsequent transactions, various Zurich entities took assets of Home without giving adequate consideration in return, and contend that this forced Home into liquidation. The plaintiffs further allege that the defendants should be held responsible for Home's alleged obligations under their Home policies. The trial judge designated the plaintiffs' claims for constructive fraudulent transfer for adjudication before all other claims; he subsequently ordered an initial bench trial on certain threshold elements of those fraudulent transfer claims and on certain of defendants' affirmative defenses. The trial commenced on November 1, 2010, and trial testimony has concluded. Closing arguments were heard on February 22 and 23, 2012, and a decision is pending. The Group maintains that the Fuller-Austin Case is without merit and intends to continue to defend itself vigorously.

A similar action entitled API, Inc. Asbestos Settlement Trust (API), et al. v. ZAIC, et al., was filed in March 2009 in the District Court for the Second Judicial District, County of Ramsey, Minnesota (API Case). ZAIC and two of its insurance company subsidiaries were named as defendants. The defendants removed the case to the U.S. District Court for the District of Minnesota, where it is now pending. The plaintiffs subsequently amended their complaint to add Zurich Insurance Company Ltd, Orange Stone and two additional ZAIC subsidiaries as defendants. As in the Fuller-Austin Case, the plaintiffs allege that API is an insured under policies issued by Home, primarily in the 1970s. The complaint seeks to hold the defendants liable for Home's policy obligations under various theories of vicarious liability tied to the recapitalization of Home, and it also alleges that the defendants are liable for damages under theories of fraudulent transfer and tortious interference with contract. In 2010, the court dismissed the plaintiffs' fraudulent transfer, tortious interference with contract and consumer fraud claims. Following the conclusion of pre-trial discovery, the defendants filed a motion for summary judgment seeking dismissal of all remaining claims against them; plaintiffs also filed a motion for partial summary judgment on their claim of respondeat superior. On March 30, 2012, the court issued a decision granting the defendants' motion for summary judgment as to all remaining claims, and denying the plaintiffs' motion. On June 27, 2012, final judgment in the District Court was entered in favor of defendants. Plaintiffs noticed an appeal to the U.S. Court of Appeals for the Eighth Circuit. On August 8, 2012, the defendants entered into a settlement with plaintiffs whereby defendants would make a payment to the plaintiffs of USD 200,000 plus defendants' forbearance of approximately USD 30,000 of costs plaintiffs owed as a result of the judgment. As no court approval is required, this settlement ends the API Case.

Zurich Insurance Group Ltd (formerly Zurich Financial Services Ltd) is a defendant in putative class-action securities lawsuits relating to its divestiture of its interest in Converium (now Scor Holding (Switzerland) AG). On July 25, 2008, Zurich Financial Services Ltd and the class-action plaintiffs entered into an amended stipulation of settlement that called for a payment of USD 28 million to settle the case in two parts on behalf of all persons and entities who had purchased Converium securities between January 7, 2002 and September 2, 2004: one settlement in the U.S. court, covering all U.S. persons and entities, and all other persons who had purchased Converium securities on U.S. markets, and another settlement in the Amsterdam Court of Appeal, in the Netherlands, covering all non-U.S. persons and entities who had purchased Converium securities on non-U.S. markets. The U.S. and Dutch settlements are both subject to court approval and are independent of each other. The U.S. court approved the U.S. settlement on December 12, 2008, and the ruling became final in June 2009. On January 17, 2012, the Amsterdam Court of Appeal approved the non-U.S. settlement and the time to appeal has now expired. The deadline to opt out of the non-U.S. settlement was July 31, 2012, and a number of opt-out requests have been received. To date, none of the opt-outs has filed suit against Zurich Insurance Group Ltd.

Consolidated financial statements *continued*

Zurich Insurance Group Ltd (formerly Zurich Financial Services Ltd) is a defendant in a putative class action pending in California state court captioned Benjamin Fogel v. Farmers Group, Inc (Fogel Case). The case, originally filed in August 2003, is brought on behalf of a putative class of all policyholders of the Farmers Exchanges from 1999 to the present. The plaintiff alleges that Farmers Group, Inc. and certain of its affiliates (Farmers), which acted as the attorneys-in-fact for policyholders of the Farmers Exchanges, collected excessive and unreasonable management fees. The complaint seeks, amongst other things, disgorgement, as well as damages and injunctive relief. In February 2005, the trial court granted Farmers' motion for summary judgment, and the plaintiff appealed. In 2008, a California appellate court reversed the trial court's ruling and reinstated the litigation. On September 9, 2009, the plaintiff filed a motion seeking to certify a nationwide class of all policyholders of the Farmers Exchanges since August 1, 1999. On October 7, 2010, the Group announced that it had agreed in principle to a proposed nationwide settlement of the Fogel Case. Under the terms of the proposed settlement, a sum of USD 455 million was made available to approximately 12.5 million policyholders who may qualify for a distribution under the settlement, with any residual amount going to the Farmers Exchanges. The Group will also pay attorneys' fees to class action counsel of up to USD 90 million, as well as the costs of administering the settlement. On December 12, 2010, the parties executed the settlement agreement, all terms of which are subject to the court's final approval. On January 12, 2011, the parties filed a motion seeking preliminary approval of the proposed settlement. On February 3, 2011, the court granted a motion to intervene by a class member who objects to certain aspects of the proposed settlement. The hearing on the motion for preliminary approval was held on March 2, 2011, and the court granted the motion. Notices were mailed and published to class members, and a number of objections and opt-out requests were submitted. On October 31, 2011, the court granted a motion by the State of Montana to intervene so it could object to certain aspects of the proposed settlement. On December 21, 2011, the court granted final approval of the settlement, and it reduced the total award of attorneys' fees, expenses, and incentive awards to approximately USD 74 million (instead of USD 90 million). A 60-day appeal period commenced following entry of the court's judgment on December 21, 2011. Five notices of appeal have been filed, including one by intervenor State of Montana. A briefing schedule has not yet been set.

While the Group believes that it is not a party to, nor are any of its subsidiaries the subject of, any unresolved current legal proceedings, claims, litigation and investigations that will have a material adverse effect on the Group's consolidated financial condition, proceedings are inherently unpredictable, and it is possible that the outcome of any proceeding could have a material impact on results of operations in the particular reporting period in which it is resolved.

14. Related party transactions

In the normal course of business, the Group enters into various transactions with related companies, including various reinsurance and cost-sharing arrangements. These transactions are not considered material to the Group, either individually or in aggregate. Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

The table below sets out related party transactions with equity method accounted investments, reflected in the consolidated income statements and consolidated balance sheets.

Table 14			
in USD millions			
Related party transactions included in the Consolidated financial statements	for the six months ended June 30		
		2012	2011
	Net earned premiums and policy fees	7	14
	Net investment result on Group investments	6	6
	Insurance benefits and losses, net of reinsurance	(8)	(3)
	Underwriting and policy acquisition costs, net of reinsurance	–	(1)
	Administrative and other operating expense	(1)	(1)
	as of	06/30/12	12/31/11
	Other loans	19	21
Deposits made under assumed reinsurance contracts	4	5	
Receivables and other assets	4	7	
Reserves for insurance contracts	(13)	(11)	
Other liabilities	(2)	(3)	

Consolidated financial statements *continued*

15. Segment information

The Group pursues a customer-centric strategy and is managed on a matrix basis, reflecting both businesses and geography. The Group's operating segments have been identified on the basis of the businesses operated by the Group and how these are strategically managed to offer different products and services to specific customer groups. Segment information is presented accordingly. The Group's reportable segments are as follows:

General Insurance is the segment through which the Group provides a variety of motor, home and commercial products and services for individuals, as well as small and large businesses.

Global Life pursues a strategy of providing market-leading unit-linked, protection and corporate propositions through global distribution and proposition pillars to develop leadership positions in its chosen segments.

Farmers provides, through Farmers Group, Inc. and its subsidiaries (FGI), non-claims related management services to the Farmers Exchanges. FGI receives fee income for the provision of services to the Farmers Exchanges, which are managed but not owned by Farmers Group, Inc., a wholly owned subsidiary of the Group. This segment also includes the Farmers Re business, which includes all reinsurance assumed from the Farmers Exchanges by the Group. Farmers Exchanges are prominent writers of personal and small commercial lines of business in the U.S.

For the purpose of discussing financial performance, the Group considers General Insurance, Global Life and Farmers to be its core business segments.

Other Operating Businesses predominantly consist of the Group's Headquarter and Holding and Financing activities. In addition, certain alternative investment positions not allocated to business operating segments are carried in this segment.

Non-Core Businesses include insurance businesses that the Group does not consider core to its operations and that are therefore mostly managed to achieve a beneficial run-off. In addition, Non-Core Businesses include the Group's banking activities.

The segment information includes the Group's internal performance measure, business operating profit (BOP). This measure is the basis on which business units are managed. It indicates the underlying performance of the business units by eliminating the impact of financial market volatility and other non-operational variables. BOP reflects adjustments for shareholders' taxes, net capital gains on investments and impairments (except for the capital markets and banking operations included in Non-Core Businesses and investments in hedge funds and certain securities held for specific economic hedging purposes), policyholders' share of investment results for the life businesses, non-operational foreign exchange movements, and significant items arising from special circumstances, including restructuring charges, charges for litigation outside the ordinary course of business and gains and losses on divestments of businesses.



Consolidated financial statements *continued*

Table 15.1

Business operating profit by business segment

in USD millions, for the six months ended June 30

	General Insurance		Global Life	
	2012	2011	2012	2011
Revenues				
Direct written premiums ¹	18,042	17,795	5,338	4,885
Assumed written premiums	1,112	1,080	45	48
Gross Written Premiums	19,153	18,876	5,383	4,933
Policy fees	–	–	1,296	1,159
Gross written premiums and policy fees	19,153	18,876	6,679	6,092
Less premiums ceded to reinsurers	(3,045)	(2,987)	(359)	(339)
Net written premiums and policy fees	16,108	15,889	6,320	5,753
Net change in reserves for unearned premiums	(1,890)	(1,567)	(222)	(31)
Net earned premiums and policy fees	14,218	14,322	6,099	5,722
Farmers management fees and other related revenues	–	–	–	–
Net investment result on Group investments	1,346	1,447	2,205	2,153
Net investment income on Group investments	1,323	1,426	2,009	2,082
Net capital gains/(losses) and impairments on Group investments	23	21	195	70
Net investment result on unit-linked investments	–	–	3,615	647
Other income	493	408	502	483
Total BOP revenues	16,057	16,177	12,420	9,005
<i>of which: inter-segment revenues</i>	<i>(251)</i>	<i>(246)</i>	<i>(178)</i>	<i>(160)</i>
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	9,602	10,429	4,605	4,853
Losses and loss adjustment expenses, net	9,605	10,418	22	35
Life insurance death and other benefits, net	(3)	11	4,128	4,717
(Decrease)/increase in future life policyholders' benefits, net ¹	–	(1)	455	101
Policyholder dividends and participation in profits, net	2	5	4,149	1,157
Income tax expense/(benefit) attributable to policyholders	–	–	22	(29)
Underwriting and policy acquisition costs, net	2,770	2,696	1,361	848
Administrative and other operating expense (excl. depreciation/amortization)	1,814	1,784	1,168	1,036
Interest credited to policyholders and other interest	6	12	192	201
Restructuring provisions and other items not included in BOP	(10)	(121)	(31)	–
Total BOP benefits, losses and expenses (before interest, depreciation and amortization)	14,184	14,805	11,466	8,067
Business operating profit (before interest, depreciation and amortization)	1,874	1,371	954	937
Depreciation and impairments of property and equipment	50	46	16	15
Amortization and impairments of intangible assets	94	105	231	152
Interest expense on debt	80	103	9	28
Business operating profit before non-controlling interests	1,651	1,118	698	742
Non-controlling interests	21	3	47	14
Business operating profit	1,630	1,115	651	728
Supplementary information				
Additions and capital improvements to property, equipment and intangible assets ²	483	402	2,080	296

¹ The Global Life segment includes approximately USD 342 million and USD 491 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2012 and 2011, respectively (see note 3 of the Consolidated financial statements 2011).

² As of June 30, 2012 and December 31, 2011, respectively.

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	-	-	-	-	53	59	-	-	23,433	22,739
	2,211	1,481	67	67	58	81	(103)	(107)	3,389	2,650
	2,211	1,481	67	67	111	139	(103)	(107)	26,821	25,389
	-	-	-	-	126	132	-	-	1,422	1,291
	2,211	1,481	67	67	236	271	(103)	(107)	28,243	26,680
	-	-	(27)	(26)	(12)	(698)	103	107	(3,340)	(3,944)
	2,211	1,481	40	41	225	(427)	-	-	24,903	22,737
	(15)	2	-	1	1	2	-	-	(2,126)	(1,593)
	2,195	1,483	40	42	226	(425)	-	-	22,778	21,144
	1,420	1,375	-	-	-	-	-	-	1,420	1,375
	65	70	219	270	270	192	(359)	(417)	3,745	3,714
	65	70	219	270	183	224	(359)	(417)	3,440	3,655
	-	-	-	-	87	(32)	-	-	306	59
	-	-	-	-	378	156	-	-	3,992	804
	40	35	441	427	51	49	(732)	(688)	794	713
	3,720	2,963	700	739	924	(28)	(1,092)	(1,105)	32,729	27,750
	(35)	(35)	(598)	(633)	(30)	(31)	1,092	1,105	-	-
	1,688	1,045	35	37	241	(388)	-	-	16,170	15,976
	1,688	1,045	-	2	2	(633)	(2)	2	11,316	10,869
	-	-	27	26	235	275	-	(1)	4,386	5,028
	-	-	7	10	4	(30)	2	(1)	468	78
	-	-	-	-	441	212	-	-	4,591	1,374
	-	-	-	-	-	-	-	-	22	(29)
	687	454	-	-	4	5	(2)	(2)	4,820	4,002
	657	657	560	485	85	92	(720)	(678)	3,564	3,377
	-	-	4	3	27	31	(2)	(3)	227	244
	11	(4)	4	42	-	-	-	-	(26)	(82)
	3,042	2,152	603	568	798	(48)	(724)	(683)	29,368	24,862
	678	810	97	171	126	19	(368)	(422)	3,361	2,888
	28	27	9	6	1	3	-	-	103	96
	48	55	30	34	-	1	-	-	403	346
	1	-	540	528	31	50	(368)	(422)	293	287
	601	729	(482)	(397)	94	(34)	-	-	2,561	2,158
	-	-	(13)	-	-	-	-	-	55	18
	601	729	(469)	(397)	93	(34)	-	-	2,506	2,141
	71	171	38	124	-	-	-	-	2,672	994

Consolidated financial statements *continued*

Table 15.2

in USD millions, for the six months ended June 30

Reconciliation of
BOP to net income
after income taxes

	General Insurance		Global Life	
	2012	2011	2012	2011
Business operating profit	1,630	1,115	651	728
Revenues/(expenses) not included in BOP:				
Net capital gains/(losses) on investments and impairments, net of policyholder allocation	181	418	151	38
Net gain/(loss) on divestments of businesses	1	–	–	10
Restructuring provisions	(20)	(71)	(16)	(9)
Net income/(expense) on intercompany loans ¹	(15)	(24)	(1)	(9)
Other adjustments	25	(25)	(13)	18
Add back:				
Business operating profit attributable to non-controlling interests	21	3	47	14
Net income before shareholders' taxes	1,822	1,415	818	790
Income tax expense/(benefit) attributable to policyholders	–	–	22	(29)
Net income before income taxes	1,822	1,415	840	762
Income tax expense (attributable to policyholders and shareholders)				
Net income after taxes				

¹ The impact at Group level relates to foreign currency translation differences.

	Farmers		Other Operating Businesses		Non-Core Businesses		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	601	729	(469)	(397)	93	(34)	2,506	2,141
	18	(4)	(17)	34	17	16	351	502
	-	-	-	-	-	-	1	10
	-	(3)	-	-	-	-	(36)	(83)
	-	-	16	38	-	-	-	5
	11	(1)	(12)	4	-	-	10	(4)
	-	-	(13)	-	-	-	55	18
	630	721	(494)	(321)	111	(17)	2,887	2,589
	-	-	-	-	-	-	22	(29)
	630	721	(494)	(321)	111	(17)	2,909	2,560
							(677)	(557)
							2,232	2,003

Consolidated financial statements *continued*

Table 15.3

Assets and liabilities by business segment	in USD millions, as of	General Insurance		Global Life	
		06/30/12	12/31/11	06/30/12	12/31/11
Assets					
Total Group Investments		86,129	84,142	105,451	101,735
Cash and cash equivalents		8,991	8,261	3,448	3,247
Equity securities		5,251	5,275	4,983	4,107
Debt securities		64,149	62,894	71,087	68,055
Real estate held for investment		2,793	2,911	4,936	5,126
Mortgage loans		1,440	1,472	7,815	8,177
Other loans		3,500	3,325	13,118	12,959
Investments in associates and joint ventures		6	6	64	65
Investments for unit-linked contracts		–	–	105,393	93,096
Total investments		86,129	84,142	210,844	194,831
Reinsurers' share of reserves for insurance contracts		13,824	13,440	1,891	2,068
Deposits made under assumed reinsurance contracts		51	71	–	19
Deferred policy acquisition costs		3,701	3,500	13,680	13,011
Deferred origination costs		–	–	785	824
Goodwill		821	827	406	413
Other intangible assets		1,487	1,158	4,558	2,895
Other assets ¹		15,903	14,632	7,481	22,311
Total assets (after cons. of investments in subsidiaries)		121,917	117,770	239,645	236,372
Liabilities					
Liabilities for investment contracts		–	–	51,905	50,661
Reserves for insurance contracts, gross		82,392	80,462	149,050	136,248
Reserves for losses and loss adjustment expenses, gross		63,649	64,074	34	39
Reserves for unearned premiums, gross		17,393	15,026	1,161	205
Future life policyholders' benefits, gross		114	92	74,277	74,162
Policyholders' contract deposits and other funds, gross		1,237	1,269	15,066	14,195
Reserves for unit-linked contracts, gross		–	–	58,511	47,647
Senior debt		5,569	5,354	431	948
Subordinated debt		611	1,038	333	333
Other liabilities ²		13,100	12,913	19,041	30,368
Total liabilities		101,672	99,767	220,760	218,558
Equity					
Shareholders' equity					
Non-controlling interests					
Total equity					
Total liabilities and equity					

¹ As of December 31, 2011, the General Insurance and Global Life segments include assets held for sale amounting to USD 38 million and USD 17 million, respectively. The Global Life segment also includes total assets related to the Santander acquired insurance businesses amounting to USD 15.6 billion (see note 2).

² As of December 31, 2011, the General Insurance and Global Life segments include liabilities held for sale amounting to USD 41 million and USD 14 million, respectively. The Global Life segment also includes total liabilities related to the Santander acquired insurance businesses amounting to USD 13.2 billion (see note 2).

	Farmers		Other Operating Businesses		Non-Core Businesses		Eliminations		Total	
	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11	06/30/12	12/31/11
	4,317	4,267	17,614	19,332	12,261	13,119	(26,973)	(28,211)	198,799	194,385
	514	580	7,864	8,596	2,265	2,637	(14,630)	(14,552)	8,451	8,768
	97	93	1,610	1,533	401	219	-	-	12,343	11,226
	1,319	1,295	4,708	4,563	6,775	7,016	(948)	(962)	147,091	142,861
	132	132	41	42	255	258	-	-	8,157	8,468
	-	-	-	-	1,248	1,409	-	-	10,503	11,058
	2,255	2,168	3,384	4,593	1,229	1,495	(11,395)	(12,697)	12,090	11,842
	-	-	6	6	87	84	-	-	163	161
	-	-	-	-	11,790	11,508	-	-	117,183	104,603
	4,317	4,267	17,614	19,332	24,051	24,626	(26,973)	(28,211)	315,983	298,988
	-	-	-	-	4,183	4,509	(468)	(656)	19,431	19,361
	2,295	2,141	-	-	183	508	-	(28)	2,530	2,711
	356	352	-	-	1	1	-	-	17,739	16,864
	-	-	-	-	-	-	-	-	785	824
	819	819	-	-	-	-	-	-	2,046	2,060
	1,417	1,434	291	286	1	1	-	-	7,753	5,774
	962	1,009	2,340	1,906	1,265	1,261	(2,146)	(1,832)	25,805	39,288
	10,167	10,023	20,245	21,525	29,684	30,906	(29,586)	(30,727)	392,071	385,869
	-	-	-	-	-	-	-	-	51,905	50,661
	2,951	2,728	45	39	21,499	21,972	(468)	(637)	255,469	240,811
	1,618	1,410	27	28	2,117	2,559	(418)	(586)	67,027	67,525
	1,333	1,318	4	4	22	22	(5)	(9)	19,907	16,567
	-	-	13	6	5,126	5,097	(45)	(42)	79,485	79,314
	-	-	-	-	2,445	2,787	-	-	18,749	18,251
	-	-	-	-	11,789	11,507	-	-	70,301	59,154
	114	125	22,797	22,590	2,392	2,134	(24,575)	(24,611)	6,729	6,541
	-	-	5,628	5,432	23	23	(894)	(1,350)	5,700	5,476
	1,679	1,635	3,475	3,149	3,737	4,428	(3,649)	(4,129)	37,383	48,364
	4,745	4,488	31,945	31,209	27,651	28,557	(29,586)	(30,727)	357,186	351,852
									32,421	31,636
									2,464	2,380
									34,884	34,017
									392,071	385,869

Consolidated financial statements *continued*

Table 15.4

in USD millions, for the six months ended June 30

General Insurance – Customer segment overview

	Global Corporate		North America Commercial	
	2012	2011	2012	2011
Gross written premiums and policy fees	4,720	4,714	5,069	4,852
Net earned premiums and policy fees	2,702	2,663	3,590	3,615
Insurance benefits and losses, net	1,905	2,327	2,379	2,500
Policyholder dividends and participation in profits, net	–	–	2	5
Total net technical expenses	541	523	1,041	1,084
Net underwriting result	257	(187)	169	26
Net investment income	303	298	445	509
Net capital gains/(losses) and impairments on investments	5	5	15	16
Net non-technical result (excl. items not included in BOP)	(68)	(56)	(112)	(125)
Business operating profit before non-controlling interests	497	60	517	427
Non-controlling interests	–	–	–	–
Business operating profit	498	60	517	426
Ratios, as % of net earned premiums and policy fees				
Loss ratio	70.5%	87.4%	66.3%	69.2%
Expense ratio	20.0%	19.6%	29.0%	30.1%
Combined ratio	90.5%	107.0%	95.3%	99.3%

	Europe		International Markets		GI Global Functions including Group Reinsurance		Eliminations		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	6,924	7,480	2,653	2,212	174	266	(387)	(648)	19,153	18,876
	5,918	6,396	2,003	1,614	4	33	–	–	14,218	14,322
	4,076	4,362	1,244	1,273	(3)	(34)	–	–	9,602	10,429
	–	–	–	–	–	–	–	–	2	5
	1,561	1,611	745	552	3	17	(4)	(1)	3,888	3,785
	280	424	14	(211)	4	50	4	1	727	104
	409	471	135	116	32	31	(1)	–	1,323	1,426
	–	–	3	–	–	–	–	–	23	21
	(173)	(171)	(69)	(45)	3	(33)	(2)	(2)	(423)	(432)
	516	724	83	(140)	38	47	–	–	1,651	1,118
	1	2	21	1	–	–	–	–	21	3
	515	722	62	(141)	38	47	–	–	1,630	1,115
	68.9%	68.2%	62.1%	78.9%	nm	nm	n/a	n/a	67.5%	72.8%
	26.4%	25.2%	37.2%	34.2%	nm	nm	n/a	n/a	27.4%	26.5%
	95.3%	93.4%	99.3%	113.0%	nm	nm	n/a	n/a	94.9%	99.3%

Consolidated financial statements *continued*

Table 15.5

in USD millions, for the six months ended June 30

General Insurance –
Revenues by region

	Gross written premiums and policy fees from external customers		of which Global Corporate	
	2012	2011	2012	2011
Middle East	119	41	77	41
Africa				
South Africa	237	301		
Morocco	72	71		
Subtotal Africa	310	372	11	–
Latin America				
Argentina	181	130		
Brazil	425	275		
Chile	181	120		
Mexico	248	144		
Venezuela	91	84		
Rest of Latin America	16	15		
Subtotal Latin America	1,141	769	–	–
North America				
United States	6,190	5,849		
Rest of North America	487	496		
Subtotal North America	6,678	6,345	1,688	1,581
Asia-Pacific				
Australia	621	567		
Hong Kong	104	87		
Japan	402	359		
Taiwan	67	65		
Rest of Asia-Pacific	204	120		
Subtotal Asia-Pacific	1,398	1,198	310	293
Europe				
United Kingdom	1,976	2,130		
Germany	2,018	2,145		
Switzerland	2,229	2,310		
Italy	942	1,098		
Spain	834	973		
Rest of Europe	1,504	1,487		
Subtotal Europe	9,504	10,142	2,519	2,597
Total	19,150	18,868	4,604	4,513

General Insurance –
Non-current assets
by region

Table 15.6

in USD millions, as of

	Property/equipment and intangible assets	
	06/30/12	12/31/11
Middle East	37	35
Africa		
South Africa	16	19
Morocco	30	31
Subtotal Africa	46	50
Latin America		
Argentina	16	7
Brazil	206	170
Chile	46	1
Mexico	269	10
Venezuela	14	13
Rest of Latin America	5	5
Subtotal Latin America	557	207
North America		
United States	236	247
Rest of North America	31	6
Subtotal North America	267	254
Asia-Pacific		
Australia	78	79
Hong Kong	11	6
Japan	31	33
Taiwan	19	18
Rest of Asia-Pacific	4	4
Subtotal Asia-Pacific	142	140
Europe		
United Kingdom	205	199
Germany	210	210
Switzerland	573	589
Italy	41	49
Spain	480	501
Rest of Europe	610	609
Subtotal Europe	2,120	2,158
Total	3,170	2,844

Consolidated financial statements *continued*

Table 15.7

in USD millions, for the six months ended June 30

Global Life –
Overview

	North America		Latin America	
	2012	2011	2012	2011
Revenues				
Life insurance deposits	137	124	1,356	114
Gross written premiums ¹	260	251	1,225	308
Policy fees	146	142	36	13
Gross written premiums and policy fees	406	392	1,261	321
Net earned premiums and policy fees	300	285	1,035	312
Net investment income on Group investments	159	166	112	65
Net capital gains/(losses) and impairments on Group investments	–	–	29	–
Net investment result on Group investments	159	166	141	65
Net investment income on unit-linked investments	(17)	(13)	5	4
Net capital gains/(losses) and impairments on unit-linked investments	28	15	545	3
Net investment result on unit-linked investments	12	2	550	7
Other income	47	50	40	7
Total BOP revenues	518	504	1,766	391
Benefits, losses and expenses				
Insurance benefits and losses, net ¹	164	141	444	229
Policyholder dividends and participation in profits, net	23	13	553	13
Income tax expense/(benefit) attributable to policyholders	–	–	–	–
Underwriting and policy acquisition costs, net	61	68	435	56
Administrative and other operating expense (excl. depreciation/amortization)	72	67	174	65
Interest credited to policyholders and other interest	71	75	10	(3)
Restructuring provisions and other items not included in BOP	–	1	(24)	–
Total BOP benefits, losses and expenses	391	364	1,594	358
Business operating profit (before interest, depreciation and amortization)	127	140	172	32
Depreciation and impairments of property and equipment	–	–	1	1
Amortization and impairments of intangible assets	11	12	86	1
Interest expense on debt	2	1	(6)	–
Business operating profit before non-controlling interests	113	127	92	31
Non-controlling interests	–	–	37	1
Business operating profit	113	127	54	30

¹ Europe includes approximately USD 342 million and USD 491 million of gross written premiums and future life policyholders' benefits for certain universal life-type contracts in the Group's Spanish operations for the six months ended June 30, 2012 and 2011, respectively (see note 3 of the Consolidated financial statements 2011).

	Europe		Asia-Pacific and Middle East		Other		Eliminations		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	5,375	5,762	902	1,057	270	117	-	-	8,039	7,174
	3,499	4,103	351	229	75	64	(27)	(22)	5,383	4,933
	1,024	935	87	67	3	2	-	-	1,296	1,159
	4,523	5,038	439	296	78	66	(27)	(22)	6,679	6,092
	4,315	4,817	377	246	72	62	-	-	6,099	5,722
	1,652	1,809	81	37	5	6	(1)	-	2,009	2,082
	143	61	24	9	-	-	-	-	195	70
	1,795	1,870	105	46	5	6	(1)	-	2,205	2,153
	991	995	38	53	21	14	-	-	1,039	1,053
	1,891	(224)	87	(164)	24	(36)	-	-	2,576	(406)
	2,882	771	125	(110)	46	(22)	-	-	3,615	647
	165	199	92	98	160	131	(3)	(3)	502	483
	9,157	7,657	700	279	282	177	(4)	(3)	12,420	9,005
	3,824	4,387	128	60	44	35	-	-	4,605	4,853
	3,312	1,245	209	(92)	51	(21)	-	-	4,149	1,157
	14	(34)	8	5	-	-	-	-	22	(29)
	684	602	113	76	67	48	-	-	1,361	848
	662	651	150	152	113	104	(4)	(3)	1,168	1,036
	98	116	13	14	-	-	-	-	192	201
	(16)	-	9	-	-	-	-	-	(31)	-
	8,578	6,967	632	214	275	166	(4)	(3)	11,466	8,067
	579	689	68	64	8	11	-	-	954	937
	11	12	3	2	-	-	-	-	16	15
	129	136	2	1	4	2	-	-	231	152
	12	26	-	-	1	-	-	-	9	28
	427	515	63	61	3	8	-	-	698	742
	10	13	(1)	-	-	-	-	-	47	14
	417	502	64	61	3	8	-	-	651	728

Consolidated financial statements *continued*

Table 15.8

in USD millions, for the six months ended June 30

Global Life –
Revenues by region

	Gross written premiums and policy fees from external customers		Life insurance deposits	
	2012	2011	2012	2011
North America				
United States	406	392	137	124
Subtotal North America	406	392	137	124
Latin America				
Chile	296	177	5	6
Argentina	56	19	20	21
Bolivia	–	6	–	6
Mexico	120	29	81	–
Venezuela	30	26	–	–
Brazil	757	64	1,250	81
Uruguay	1	–	–	–
Subtotal Latin America	1,261	321	1,356	114
Europe				
United Kingdom	871	796	2,918	2,706
Germany	1,405	1,572	1,032	1,050
Switzerland	1,130	1,220	63	38
Ireland ²	256	321	1,024	1,018
Spain	508	748	121	569
Italy	230	191	178	358
Portugal	17	16	15	24
Austria	79	148	24	–
Subtotal Europe	4,496	5,012	5,375	5,762
Asia-Pacific and Middle East				
Hong Kong	43	43	64	76
Australia	157	151	37	27
Japan	50	49	12	12
Malaysia	120	–	–	–
Zurich International Life ¹	68	51	788	941
Subtotal Asia-Pacific and Middle East	439	295	902	1,057
Other				
Luxembourg ²	3	2	270	117
International Group Risk Solutions ³	43	39	–	–
Subtotal Other	46	42	270	117
Total	6,647	6,062	8,039	7,174

¹ Mainly includes business written through licenses into Asia-Pacific and Middle East.² Includes business written under freedom of services and freedom of establishment in Europe.³ Includes business written through licenses into all regions.

Global Life –
Non-current assets
by region

Table 15.9

in USD millions, as of

	Property/equipment and intangible assets	
	06/30/12	12/31/11
North America		
United States	164	174
Subtotal North America	164	174
Latin America		
Chile	478	21
Argentina	108	9
Mexico	317	1
Brazil	1,032	43
Subtotal Latin America	1,935	74
Europe		
United Kingdom	416	415
Germany	761	816
Switzerland	60	60
Ireland	3	3
Spain	1,729	1,833
Italy	192	244
Austria	5	6
Subtotal Europe	3,166	3,378
Asia-Pacific and Middle East		
Hong Kong	7	7
Indonesia	3	3
Japan	2	3
Singapore	1	–
Malaysia	108	109
Zurich International Life	13	5
Subtotal Asia-Pacific and Middle East	134	127
Other		
Luxembourg ¹	4	4
Subtotal Other	4	4
Total	5,403	3,757

¹ Includes assets relating to business written under freedom of services and freedom of establishment in Europe.

Consolidated financial statements *continued*

Table 15.10				
in USD millions, for the six months ended June 30				
		2012	Total 2011	
Farmers – Overview	Farmers Management Services			
	Management fees and other related revenues	1,420	1,375	
	Management and other related expenses	731	724	
	Gross management result	688	651	
	Other net income (excl. items not included in BOP)	23	23	
	Business operating profit before non-controlling interest	711	674	
	Business operating profit	711	674	
	Farmers Re			
	Gross written premiums and policy fees	2,211	1,481	
	Net earned premiums and policy fees	2,195	1,483	
	Insurance benefits and losses, net	(1,688)	(1,045)	
	Total net technical expenses	(687)	(455)	
	Net underwriting result	(179)	(16)	
	Net non-technical result (excl. items not relevant for BOP)	31	29	
	Net investment result income	38	42	
	Business operating profit before non-controlling interests	(110)	55	
	Business operating profit	(110)	55	
	Farmers business operating profit	601	729	
	Ratios, as % of net earned premiums and policy fees			
	Farmers Re Combined ratio		108.2%	101.1%
Supplementary information				
Property, equipment and intangible assets ¹		2,441	2,454	

¹ As of June 30, 2012 and December 31, 2011, respectively.



Consolidated financial statements *continued*

Other Operating Businesses – Overview	Table 15.11 in USD millions, for the six months ended June 30	Holding & Financing ¹	
		2012	2011
	Gross written premiums and policy fees	63	64
	Net earned premiums and policy fees	36	37
	Net investment income	199	252
	Other income	34	47
	Total BOP revenues	269	337
	Insurance benefits and losses, incl. PH dividends, net	35	36
	Administrative and other operating expense (excl. depreciation/amortization)	71	17
	Other expenses (excl. items not included in BOP)	8	46
	Depreciation, amortization and impairments of property, equipment and intangible assets	5	–
	Interest expense on debt	542	531
	Business operating profit before non-controlling interests	(391)	(293)
	Non-controlling interests	(13)	–
	Business operating profit	(379)	(293)

¹ Includes the previously separately disclosed sub-segment Alternative Investments.

	Headquarters		Eliminations		Total	
	2012	2011	2012	2011	2012	2011
	4	3	–	–	67	67
	4	4	–	–	40	42
	23	21	(3)	(3)	219	270
	479	456	(72)	(76)	441	427
	505	481	(75)	(79)	700	739
	–	1	–	–	35	37
	561	543	(72)	(75)	560	485
	–	–	–	–	8	46
	34	40	–	–	39	40
	1	1	(3)	(4)	540	528
	(90)	(104)	–	–	(482)	(397)
	–	–	–	–	(13)	–
	(90)	(104)	–	–	(469)	(397)

Consolidated financial statements *continued*

Table 15.12

in USD millions, for the six months ended June 30

Non-Core
Businesses –
Overview

	Total	
	2012	2011
Gross written premiums and policy fees	236	271
Net earned premiums and policy fees	226	(425)
Insurance benefits and losses, net	241	(388)
Policyholder dividends and participation in profits, net	441	212
Total net technical expenses	38	47
Net underwriting result	(494)	(296)
Net investment income	72	104
Net capital gains/(losses) and impairments on investments	575	244
Net non-technical result (excl. items not included in BOP)	(60)	(86)
Business operating profit before non-controlling interests	94	(34)
Business operating profit	93	(34)



Review report of the auditors

Review report of the auditors

To the Board of Directors of Zurich Insurance Group Ltd

Introduction

We have reviewed the accompanying unaudited Consolidated financial statements (consolidated income statement (unaudited), consolidated statement of comprehensive income (unaudited), consolidated balance sheet (unaudited), consolidated statement of cash flows (unaudited), consolidated statement of changes in equity (unaudited) and related notes on pages 31 to 90) of Zurich Insurance Group Ltd for the period ended June 30, 2012. The Board of Directors is responsible for the preparation and presentation of these unaudited Consolidated financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these unaudited Consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with Swiss Auditing Standard 910 and International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Swiss Auditing Standards and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the unaudited Consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers AG

Richard Burger
Audit expert

Stephen O'Hearn
Global relationship partner

Zurich, August 15, 2012



Embedded value report

Zurich produces and reports Market Consistent Embedded Value in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the CFO Forum in October 2009 to provide an economic view of the value of the life business to shareholders in order to support financial management and strategic decision making. This report provides an overview of the movement in the Market Consistent Embedded Value over the previous half year and New Business Value added from new sales during the same period, including further splits into constituent parts and geographical regions.

Contents

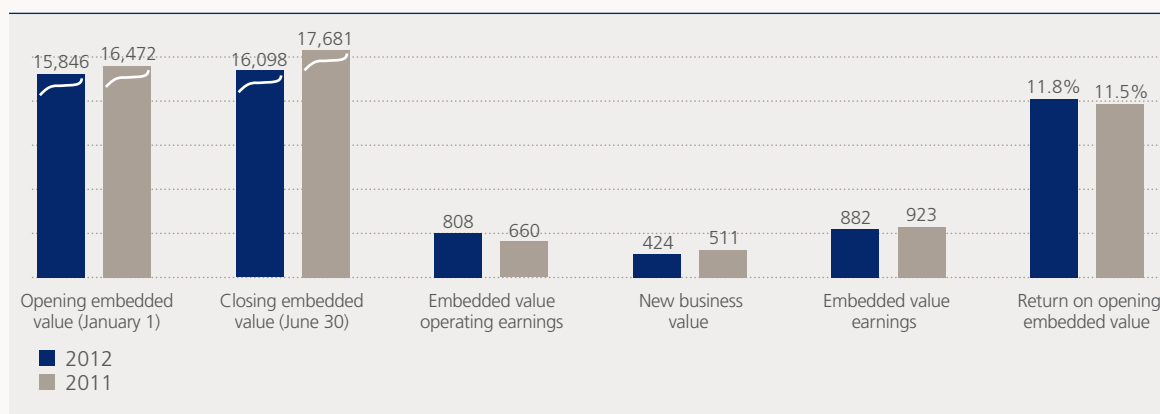
Embedded value report – executive summary	95
1. Analysis of embedded value earnings	96
2. Free surplus	98
3. New business	99
4. Expected contribution and transfer to shareholders' net assets	103
5. Operating, economic and other non-operating variances	104
6. Acquisitions, capital movements and adjustments	108
7. Value of business in-force	109
8. Reconciliation of IFRS shareholders' equity to embedded value	110
9. Sensitivities	111
10. Non-core life business	112
11. Group MCEV	113
12. Embedded value methodology	114
13. Embedded value assumptions	120
Appendix: Embedded value tables	124

This report describes the development of the embedded value of the Zurich Insurance Group (the Group) for the six months ended June 30, 2012.

The majority of this report, Sections 1 to 9, relates to Global Life, but summary information relating to the non-core life business is given in Section 10 and to the total Group in Section 11.

Embedded value report – executive summary

Key results
in USD millions, for the six months ended June 30



Embedded value key results

in USD millions, for the six months ended June 30		2012 ^{1,2,3}	2011 ^{1,2,3}	Change
Opening embedded value (January 1)		15,846	16,472	(627)
Closing embedded value (June 30)		16,098	17,681	(1,582)
Embedded value operating earnings		808	660	148
<i>of which new business value</i>		424	511	(88)
Embedded value earnings		882	923	(41)
Return on opening embedded value		11.8%	11.5%	0.3%

¹ A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011, see embedded value assumptions Section 13 b).

This has a transitional impact over two years from the implementation date relating to renewals of business in force at the date of the change. The renewed business contributed USD 39 million of new business value in the first six months of 2012, compared with USD 88 million in the same period of 2011.

² A liquidity premium has been included in the time value of options and guarantees as of December 31, 2011. The 2011 half year figures have not been restated to reflect this change.

³ The acquired businesses in Malaysia and Latin America are not included in the Global Life embedded value results because embedded value reporting, as of June 30, 2012, has not been fully implemented in the local business units.

Embedded value operating earnings were USD 808 million. Of this, USD 504 million was the expected emergence of value from in-force business and USD 424 million from new business, offset by adverse operating variances of USD 119 million arising from experience and other operating variances as well as assumption changes.

New business value of USD 424 million has decreased by USD 88 million or 17 percent compared with the same period last year. After adjusting for the transitional impact of corporate protection business renewals, the new business value on a local currency basis reduced by 7 percent compared with the same period of 2011.

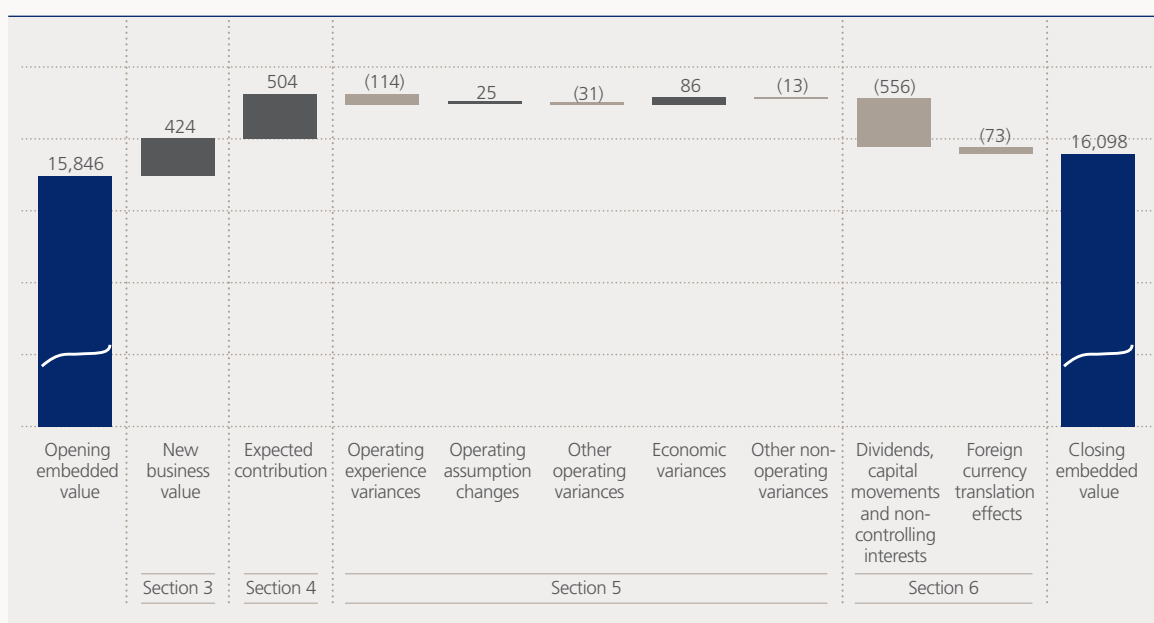
Embedded value earnings were USD 882 million, generating a return on embedded value of 11.8 percent. The small decrease in embedded value earnings was due to lower impacts from economic and other non-operating variances largely offset by higher operating earnings.

Embedded value report *continued*

1. Analysis of embedded value earnings

The graph and table below show how the embedded value has moved from USD 15,846 million to USD 16,098 million during the first six months of 2012. Each movement is discussed in its own section of the report as detailed on the graph below.

Embedded value development 2012
in USD millions, for the six months ended June 30



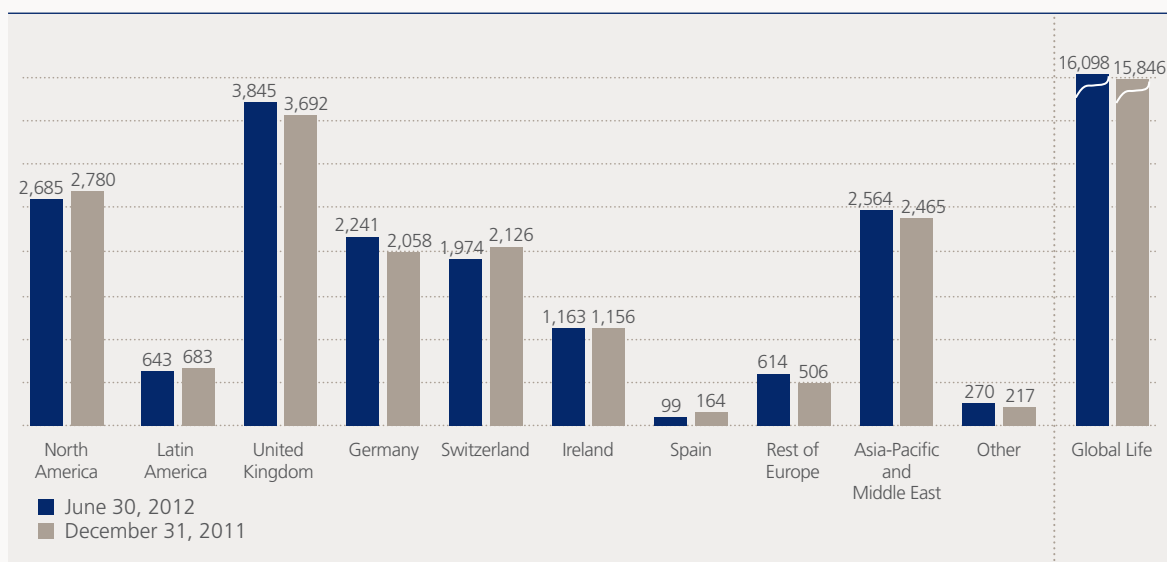
Analysis of embedded value earnings

in USD millions,
for the six months ended June 30, 2012 and June 30, 2011

	2012				2011	
	Required capital	Free surplus	Shareholders' net assets	Value of business in force	Total	Total
Opening embedded value	5,145	1,243	6,388	9,457	15,846	16,472
Dividends & capital movements start of period	(342)	(99)	(442)	(92)	(534)	(535)
New business value	(87)¹	(341)	(428)	852	424	511
<i>New business net of non-controlling interests</i>	<i>(97)¹</i>	<i>(330)</i>	<i>(426)</i>	<i>828</i>	<i>401</i>	<i>488</i>
Expected contribution at reference rate	20	25	45	104	149	102
Expected contribution in excess of reference rate	(7)	20	13	342	355	298
Transfer to free surplus	207 ¹	380	587	(587)	–	–
Operating experience variances	73	(88)	(15)	(98)	(114)	(104)
Operating assumption changes	121	(102)	19	6	25	47
Other operating variances	(290)	257	(33)	2	(31)	(194)
Operating earnings	36	151	187	621	808	660
Economic variances	90	198	289	(203)	86	255
Other non-operating variances	17	(23)	(6)	(6)	(13)	7
Embedded value earnings	143	326	469	412	882	923
Non-controlling interests	(9)	12	2	(24)	(22)	(24)
Foreign currency translation effects	(34)	(21)	(55)	(18)	(73)	844
Closing embedded value	4,902	1,461	6,364	9,735	16,098	17,681

¹ As noted in Section 12 c), the UK's required capital and free surplus allow for a Pillar 2 basis.

Embedded value by geographical region in USD millions



In **North America** embedded value decreased by USD 95 million. New business value and expected return were more than offset by operating variances and dividend payments to the Group.

In **Latin America** negative economic and experience variances were observed and embedded value reduced by USD 40 million in total for the region.

In the **UK**, growth in new business and other variances increased embedded value but these were partially offset by a combination of expense assumption updates, exchange rates and adverse economic variances. The net effect was an increase in embedded value of USD 153 million.

In **Germany** positive impacts from assumption changes and economic variances were partially offset by exchange rate movements and other operating variances. The embedded value increased by USD 183 million.

In **Switzerland** embedded value decreased by USD 152 million following an opening accounting adjustment of USD 271 million, partially offset by various modeling changes and investment performance.

In **Ireland** negative experience variances related to poor persistency continued but embedded value increased marginally by USD 7 million.

In **Spain** positive operating variances were offset by widening credit spreads. Embedded value reduced by USD 64 million.

In **Rest of Europe** embedded value increased by USD 108 million, mainly from positive investment variance as credit spreads narrowed in Italy and Portugal.

In **Asia-Pacific and Middle East** embedded value increased by USD 99 million due partly to positive economic variance.

In **Other**, the embedded value increased by USD 53 million, in line with new business.

Embedded value report *continued*

2. Free surplus

Required capital is the amount of shareholders' net asset value required to cover the target capital requirement, covering both minimum solvency margin and target excess solvency margin. Free surplus is the difference between the target capital requirement and the shareholders' net asset value.

Shareholders' net assets	in USD millions, as of June 30, 2012 and December 31, 2011		2012		2011
	Shareholders' net assets	Required capital	Required capital (% SM) ¹	Free surplus	Free surplus
North America	500	482	324.4%	18	114
Latin America	368	192	100.0%	176	248
Europe	4,444	3,443	119.5%	1,001	565
of which:					
<i>United Kingdom</i>	1,016	1,163	127.6%	(146)	(265)
<i>Germany</i>	1,890	715	100.7%	1,175	1,035
<i>Switzerland</i>	402	398	100.0%	5	15
<i>Ireland</i>	441	364	149.1%	77	68
<i>Spain</i>	250	315	125.0%	(65)	(148)
<i>Rest of Europe</i>	444	488	133.5%	(44)	(140)
Asia-Pacific and Middle East	959	743	120.4%	216	259
Other	93	43	101.3%	50	58
Global Life	6,364	4,902	126.3%	1,461	1,243

¹ SM is the local minimum solvency margin.

In **North America** free surplus reduced mainly from dividend payments to the Group of USD 109 million.

In **Latin America** free surplus decreased by USD 72 million. Capital is being used to develop the region, which also results in the capital required for writing new business exceeding the profit transfer from in-force business.

In the **UK**, free surplus increased by USD 119 million mainly due to a release of required capital.

In **Germany** and **Switzerland** surplus in the main life insurance entities is treated as required capital and free surplus is related to other companies. The increase in free surplus mainly related to growth in assets outside of the main life insurance entities. In Switzerland, a dividend was paid.

In **Ireland** free surplus increased marginally to USD 77 million.

In **Spain** free surplus increased mainly from a capital transfer of USD 90 million by the Group.

In **Rest of Europe** free surplus increased by USD 96 million. This was mainly due to positive investment variances as credit spreads widened in Italy and Portugal.

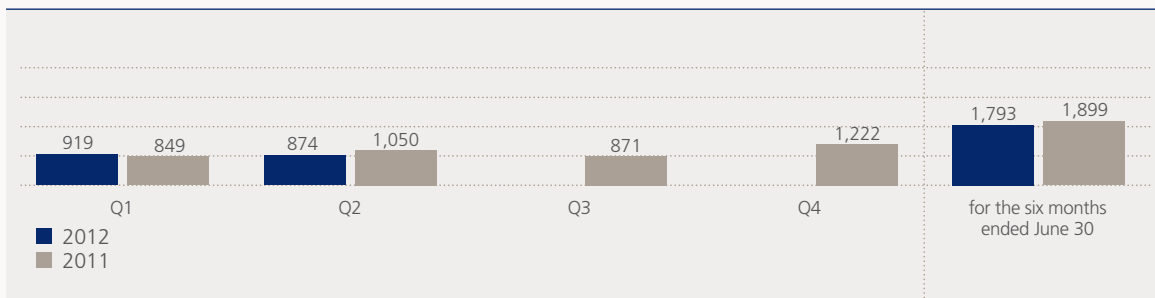
In **Asia-Pacific and Middle East** free surplus reduced due to development costs and dividend payments to the Group.

In **Other** free surplus decreased by USD 7 million.

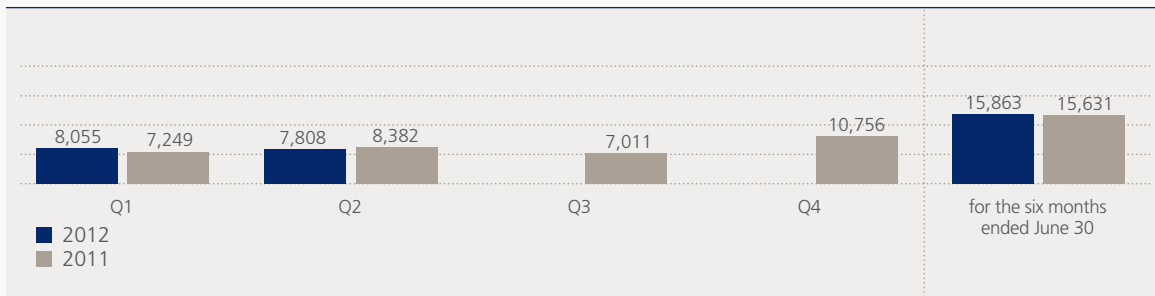
3. New business

Global Life

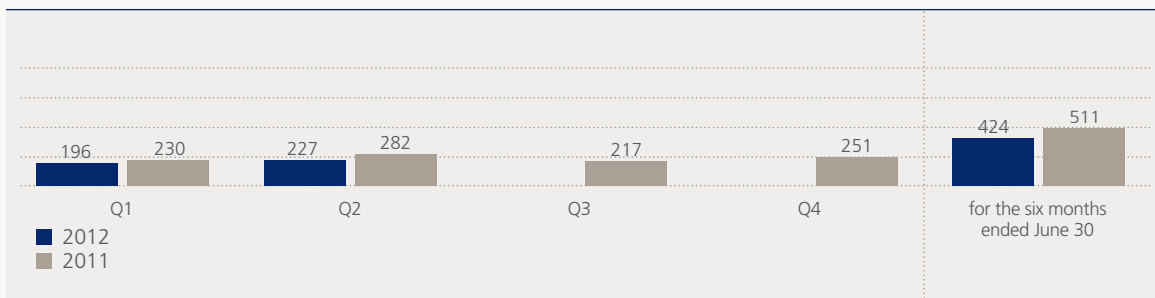
Annual premium equivalent (APE)
in USD millions



Present value of new business premiums (PVNBP)
in USD millions

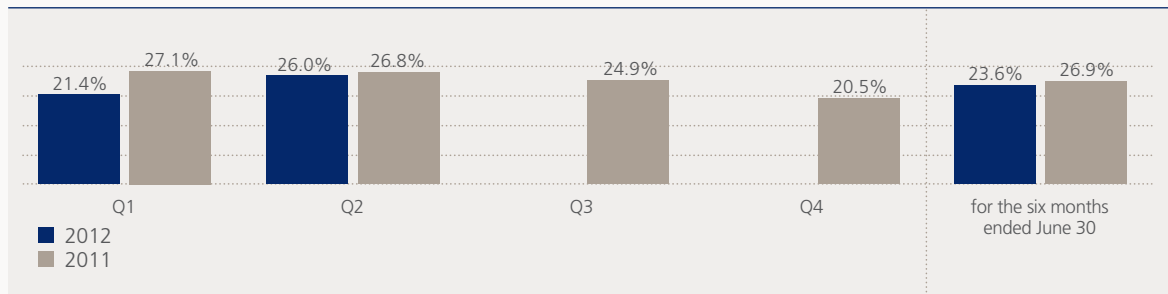


New business value
in USD millions

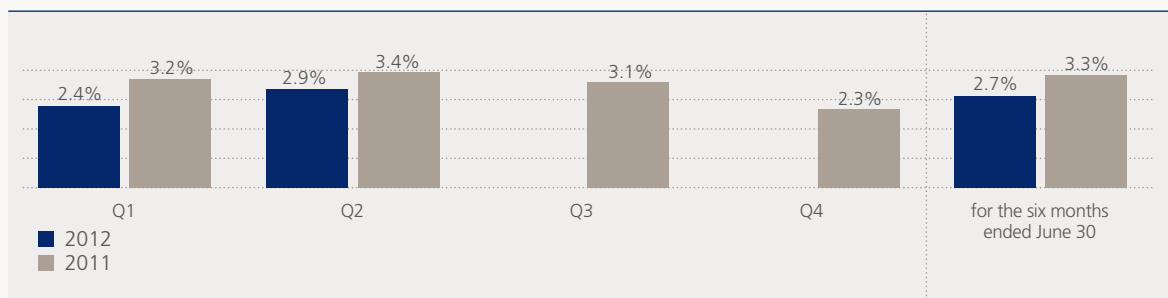


Embedded value report *continued*

New business margin (%APE)
in percent



New business margin (%PVNBP)
in percent



New business by quarter

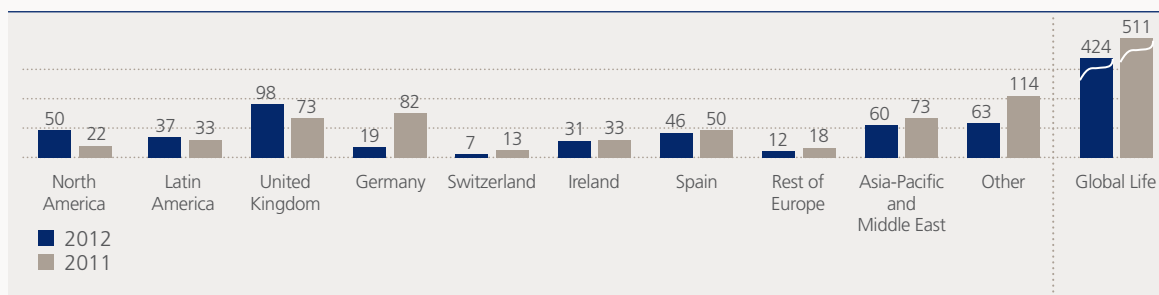
in USD millions	2012					2011				
	Q1	Q2	Q3	Q4	Q2 YTD	Q1	Q2	Q3	Q4	Q2 YTD
Annual premium equivalent (APE)¹	919	874			1,793	849	1,050	871	1,222	1,899
Annual premiums	582	529			1,111	499	645	531	704	1,144
Single premiums	3,371	3,451			6,822	3,496	4,051	3,402	5,175	7,547
Present value of new business premiums (PVNBP) ²	8,055	7,808			15,863	7,249	8,382	7,011	10,756	15,631
Average annual premium multiplier	8.1	8.2			8.1	7.5	6.7	6.8	7.9	7.1
New business value	196	227			424	230	282	217	251	511
New business margin (% of APE)	21.4%	26.0%			23.6%	27.1%	26.8%	24.9%	20.5%	26.9%
New business margin (% of PVNBP)	2.4%	2.9%			2.7%	3.2%	3.4%	3.1%	2.3%	3.3%

¹ APE is measured as new annual premiums plus 10 percent of new single premiums.

² PVNBP is measured as new single premiums plus the present value of new annual premiums.

Geographical Region

New business value by geographical region
in USD millions, for the six months ended June 30, 2012



New business by geographical region

in USD millions, for the six months ended June 30	APE		PVNBP		New business value		New business margin			
							% of APE		% of PVNBP	
	2012	2011	2012	2011	2012 ²	2011 ¹	2012 ²	2011 ¹	2012 ²	2011 ¹
North America	62	50	611	442	50	22	81.0%	44.1%	8.2%	5.0%
Latin America	154	138	714	599	37	33	23.9%	23.6%	5.1%	5.4%
Europe	1,260	1,322	12,167	12,285	214	269	17.0%	20.4%	1.8%	2.2%
of which:										
<i>United Kingdom</i>	596	536	5,851	4,969	98	73	16.5%	13.7%	1.7%	1.5%
<i>Germany</i>	224	274	2,129	2,718	19	82	8.3%	30.1%	0.9%	3.0%
<i>Switzerland</i>	120	75	1,450	810	7	13	6.2%	17.4%	0.5%	1.6%
<i>Ireland</i>	163	181	1,373	1,481	31	33	19.2%	18.3%	2.3%	2.2%
<i>Spain</i>	79	156	730	1,488	46	50	57.8%	31.7%	6.3%	3.3%
<i>Rest of Europe</i>	78	100	634	819	12	18	15.8%	17.9%	1.9%	2.2%
Asia-Pacific and Middle East	241	307	1,597	1,711	60	73	24.9%	23.8%	3.8%	4.3%
Other	76	83	774	594	63	114	83.0%	138.7%	8.1%	19.3%
Global Life	1,793	1,899	15,863	15,631	424	511	23.6%	26.9%	2.7%	3.3%

¹ A refinement in methodology for calculating new business value for corporate protection business was introduced in 2011, see embedded value assumptions Section 13 b). This has a transitional impact over two years from the implementation date relating to renewals of business in force at the date of the change. The renewed business contributed USD 39 million of new business value in the first six months of 2012, compared with USD 88 million in the same period of 2011.

² A liquidity premium has been included in the time value of options and guarantees as of December 31, 2011. The 2011 half year figures have not been restated to reflect this change.

Annual premium equivalent (APE) increased in **North America** due to higher volumes and sales of new products launched in the North American market. Margins increased on protection business as a result of price increases, improved utilization of reinsurance and lower interest rates. In total, new business value increased by USD 28 million or 126 percent in comparison to the same period in 2011.

Latin America reported an increase in APE of USD 16 million or 21 percent on a local currency basis. The main driver was increased sales of Corporate Life and Pensions business in Mexico, Venezuela and Brazil. New business value was in line with the increase in APE and improved by 22 percent on a local currency basis.

Overall in **Europe**, APE reduced by USD 62 million but was flat on a local currency basis. Although APE increased in the UK, this was offset by reduced APE in other European markets. Loss of margin in Germany and other markets reduced new business value due to adverse economic conditions. This was partially offset by increased new business value in the UK, but overall, new business value reduced by USD 55 million or 16 percent on a local currency basis.

The **UK** increased APE by USD 60 million or 14 percent on a local currency basis. The main driver was strong growth in Private Banking and Corporate Life and Pensions business. The margin increased due to changes in tax legislation and improved utilization of reinsurance. New business value increased by USD 25 million or 38 percent on a local currency basis.

Embedded value report *continued*

In **Germany**, APE and margins reduced. The reduction in margin was mainly attributable to lower interest rates, resulting in reduced spreads on traditional business and lower profits. As a result, new business value reduced by USD 64 million or 76 percent on a local currency basis.

In **Switzerland** APE increased, mainly due to a change to the method of recognizing group pension premiums. This change also reduced margins as new business value was not affected. Margins were further reduced by the drop in interest rates, which reduced spreads on traditional business. New business value reduced by USD 6 million or over 40 percent on a local currency basis.

In **Ireland**, APE of domestic business continued to suffer from the challenging domestic market but new business margins improved as the business maintained its pricing discipline. Cross border sales increased in both volume and margin terms. New business value was flat on a local currency basis in comparison with the same period of 2011.

APE in **Spain** decreased in total due to lower sales of savings products although sales of protection business was maintained. As the business mix shifted from savings business to more profitable protection business, margins increased. In total, new business value was flat on a local currency basis compared with the same period of 2011.

For **Asia-Pacific and Middle East**, the APE reduced by USD 65 million or 20 percent on a local currency basis. The main reason was that a large corporate scheme was signed in 2011, while in 2012 fewer new corporate schemes were signed. Lower sales in unit-linked business further reduced APE. New business value reduced by USD 13 million or 16 percent on a local currency basis.

In the **Other** region, new business value before the methodology refinements was flat on a local currency basis compared with the same period of 2011. The effect of the inclusion of the renewal methodology was lower in the first six months of 2012 resulting in a decrease in new business value after methodology refinements.

4. Expected contribution and transfer to shareholders' net assets

Expected contribution at reference rate

The expected contribution at reference rate is the projected change in the embedded value over the year using risk-free investment returns applicable at the start of the year. Expected contribution in relation to risk-free rates was higher in 2012 compared with 2011.

Expected contribution in excess of reference rate

The expected contribution in excess of reference rate is the additional value expected to be created if "real world" expected investment returns emerge. The expected return in excess of the risk-free rate on sovereign debt in some European countries has increased compared with 2011.

Transfer to shareholders' net assets

The expected transfer to shareholders' net assets shows the profits expected to emerge during the year in respect of business that was in-force at the start of the year. The net effect on embedded value is zero, as the reduction in the value of business in-force is offset by an increase in shareholders' net assets.

Embedded value report *continued*

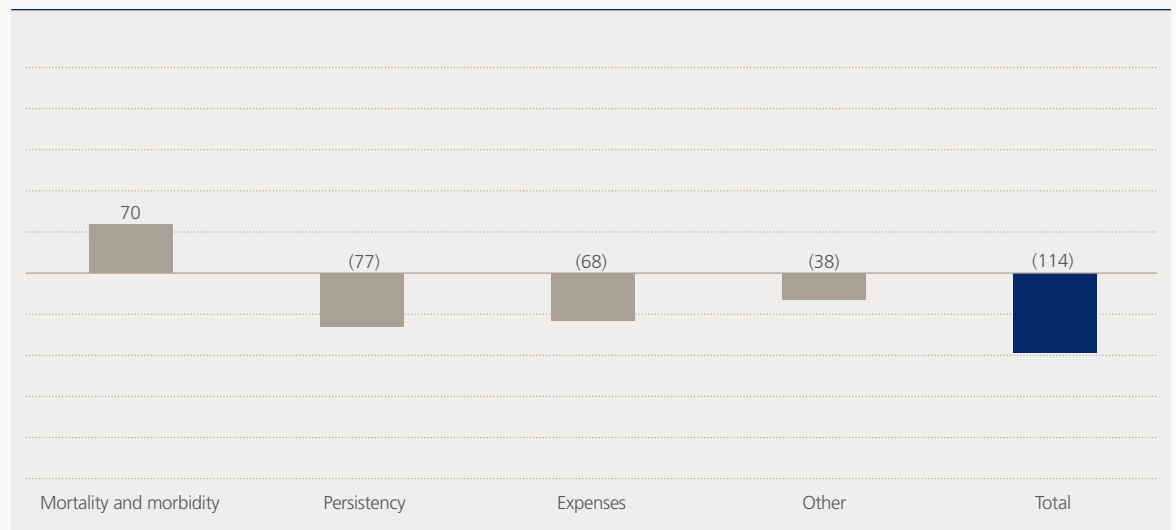
5. Operating, economic and other non-operating variances

Operating, economic and other non-operating variances	in USD millions, for the six months ended June 30, 2012				
	Operating experience variances	Operating assumption changes	Other operating variances	Economic variances	Other non-operating variances
North America	19	15	(195)	33	6
Latin America	(38)	2	(32)	(34)	1
Europe	(55)	20	142	45	(10)
of which:					
<i>United Kingdom</i>	(28)	(42)	100	(107)	10
<i>Germany</i>	–	55	(65)	115	–
<i>Switzerland</i>	–	–	79	71	(22)
<i>Ireland</i>	(36)	–	(10)	27	–
<i>Spain</i>	8	9	36	(152)	(1)
<i>Rest of Europe</i>	1	(1)	2	92	4
Asia-Pacific and Middle East	(30)	(6)	4	45	(17)
Other	(9)	(6)	51	(4)	6
Global Life	(114)	25	(31)	86	(13)

Operating experience variances

Operating variances measure the difference between actual experience during the period and that implied by the operating assumptions. Experience variations occur in the normal course of business as short-term experience fluctuates around long-term assumptions.

Embedded value split of operating experience variance
in USD millions, for the six months ended June 30, 2012



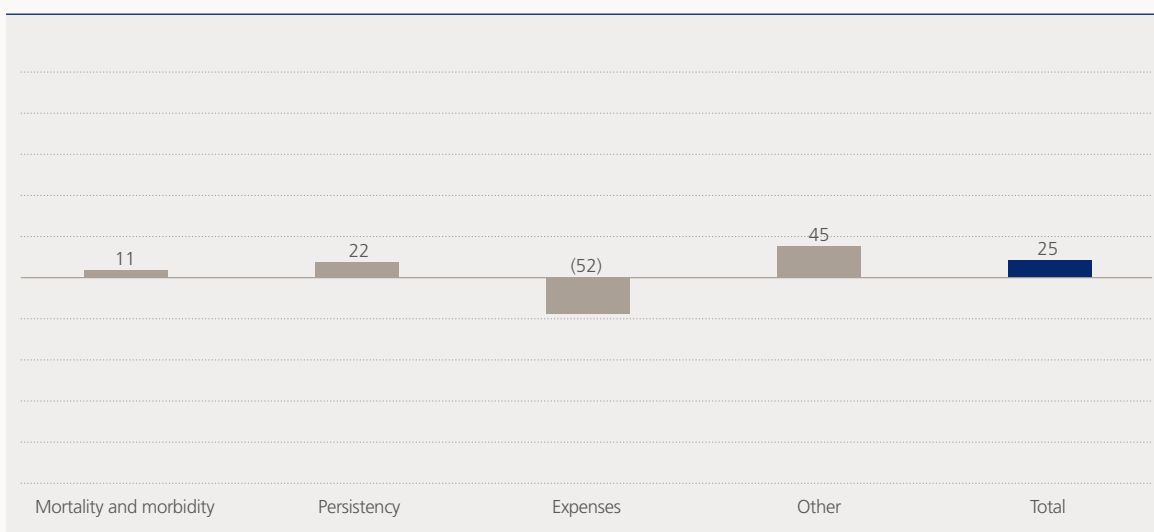
- **Mortality and morbidity** experience improved by USD 70 million. The main components of this were positive experience of USD 32 million in the UK, USD 25 million in North America and USD 10 million in Asia-Pacific and Middle East. Other positive experience observed in Spain and Italy offset negative experience in Ireland.
- **Persistency** experience decreased embedded value by USD 77 million, mainly driven by the continued difficult market conditions in Ireland and Asia-Pacific and Middle East, contributing USD 30 million and USD 31 million respectively to the decrease. Experience in Latin America, particularly in the highly competitive group business, and savings business in Chile, reduced embedded value by USD 23 million. This negative experience, together with minor negative experience observed in other countries, was partially offset by positive experience in North America and Spain.

- **Expenses** which were higher than expected reduced embedded value by USD 68 million. The main drivers of this were the UK and North America, contributing USD 24 million and USD 17 million respectively. Higher than expected expenses occurred to a lesser extent in Asia-Pacific and Middle East and Latin America.
- **Other** operating experience variances negatively impacted embedded value by USD 38 million. The main contributor was the UK.

Operating assumption changes

Changes in assumptions about future operating experience also have an impact on operating variances.

Embedded value split of operating assumption changes
in USD millions, for the six months ended June 30, 2012



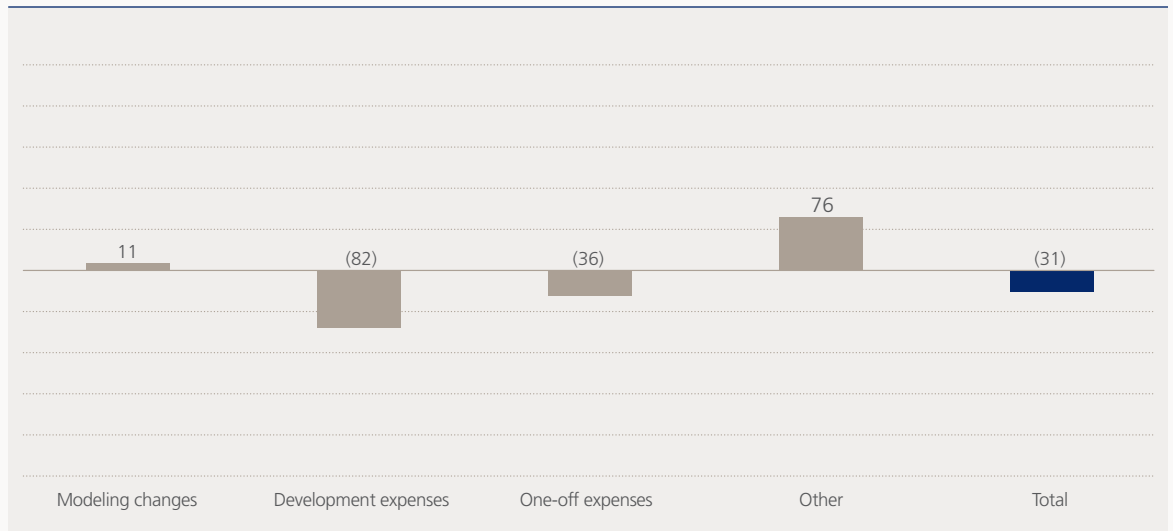
- **Mortality and morbidity** assumption updates increased embedded value by USD 11 million. The main contribution was updated mortality tables in the UK, which increased the value of term assurance products by USD 9 million.
- **Persistency** assumption updates positively impacted embedded value by USD 22 million. The main driver of this was Spain, where updates to persistency assumptions added USD 25 million to embedded value.
- **Expense** assumption changes reduced embedded value by USD 52 million. The main contributor was the UK, where updated expense assumptions decreased embedded value by USD 51 million.
- **Other** assumption changes increased embedded value by USD 45 million. The main positive effect of USD 66 million was contributed by Germany, with smaller negative effects observed in Spain, Asia-Pacific and Middle East and the Other region.

Embedded value report *continued*

Other operating variances

Other operating variances include modeling changes and non-recurring expenses and the operating variances not captured elsewhere.

Embedded value split of other operating variances
in USD millions, for the six months ended June 30, 2012



- Modeling changes** increased embedded value by USD 11 million. In the UK, enhancements to modeling of reserves and policyholder behavior increased value by USD 89 million. In Switzerland, embedded value increased by USD 64 million as a result of an enhanced protection portfolio model and improved modeling in respect of reserves and investments, partially offset by modeling updates to risk capital. In Spain, general enhancements to the valuation models increased value by USD 38 million. These were offset by USD 182 million in North America mainly as a result of a change in the modeling of a captive arrangement.
- Development expenses** reduced embedded value by USD 82 million. This was predominantly made up of USD 31 million to fund a new platform in the UK and USD 18 million to fund hub development in Ireland.
- One-off expenses** reduced embedded value by USD 36 million, mainly driven by efficiency improvement and other projects in the UK and Switzerland.
- Other** operating variances not captured elsewhere increased embedded value by USD 76 million. The main positive contribution was in the UK where more accurate accruals for commissions meant writing off provisions no longer needed as well as improved utilization of reinsurance which increased value by USD 54 million in total.

Economic variances

Economic variances are the differences between the actual experience during the period and those implied by the economic assumptions at the start of the period. Economic variances also include the impact of changes in assumptions in respect of future economic experience at the end of the period. In total, economic variances increased embedded value by USD 86 million in 2012.

The impact on embedded value from economic variances was relatively small compared with prior years. In the first half of 2012 risk free rates reduced for the euro but were partially offset by the liquidity premium spread increases, while for other major currencies small decreases in the risk-free rates and liquidity spreads were observed. The yields on sovereign debt were extremely volatile across Europe, with both increases and reductions in spreads. These movements are most significant for spread business and traditional participating business. Italy, Portugal and Switzerland experienced some positive investment results while widening credit spreads in Spain reduced investment performance. The UK suffered from performance below expectations in their unit-linked funds. Yield curve movements had some negative impacts on the valuation of future profits, most notably in Switzerland and Italy.

Outside Europe, reduced interest rates positively affected the economic variance on protection business in Australia and North America. This effect was partially offset by negative impacts on savings and annuity business in Chile.

Other non-operating variances

Other non-operating variances include the impact of legal, tax and regulatory changes in the year as well as other significant one-off items.

Total other non-operating variances had a negative impact on embedded value of USD 13 million. The main movements came from Switzerland due to a higher than expected transfer to policyholder funds and from Asia-Pacific and Middle East due to exchange rate impacts. Offsetting effects mainly arose in North America and the UK.

Embedded value report *continued*

6. Acquisitions, capital movements and adjustments

Acquisitions

In 2011, the Group acquired businesses in Malaysia and Latin America. The impact of these transactions is not included in the Global Life embedded value results because EV reporting, as of June 30, 2012, has not been fully implemented in the local business units.

The business acquired in Malaysia has been included in the Group consolidated IFRS accounts since December 31, 2011 and therefore the value of this business is included in the non-covered business which is consolidated in the Group MCEV, see Section 11. The value included there is the unadjusted IFRS net asset value.

In Latin America the Group acquired a 51 percent stake in the insurance operations of Banco Santander S.A. (Santander) in Argentina, Brazil, Uruguay, Chile and Mexico. As part of the acquisition the Group also entered into a long term distribution agreement with Santander in Latin America. The value of this acquired business has also been included in the non-covered business in the Group MCEV. The value included there is the unadjusted IFRS net asset value.

When EV reporting is implemented locally in the business units, the value of these units will be included in the covered business and thus in the base EV value. In line with embedded value methodology, see Section 12, the value of the acquisition will reduce the Group MCEV by the allocated intangibles.

Dividends and capital movements

Dividends and capital movements reflect dividends paid by Global Life to the Group, shown as a negative number on the table below, and capital received from the Group, shown as a positive number on the table. Capital movements can also relate to the value of business in-force in respect of acquisitions and disposals, or corporate restructuring.

Dividend and capital movements	in USD millions, as of June 30, 2012	Total
	North America	(109)
	Latin America	(5)
	Europe	(365)
	of which:	
	<i>United Kingdom</i>	6
	<i>Germany</i>	(1)
	<i>Switzerland</i>	(355)
	<i>Ireland</i>	13
	<i>Spain</i>	(19)
	<i>Rest of Europe</i>	(8)
	Asia-Pacific and Middle East	(11)
	Other	(45)
	Global Life	(534)

Changes in value for Global Life arising from dividend and capital movements are offset by equal and opposite value changes in the non-covered businesses of the Group and therefore have no impact on Group MCEV as shown in Section 11, except as noted below.

In Switzerland, the reported statutory capital was reduced by USD 271 million due to an opening accounting adjustment related to the initial consolidation of an investment subsidiary. Although this had no impact on IFRS accounts, this amount was not offset by an increase elsewhere and as a result Group MCEV was reduced. In addition, a dividend of USD 84 million was paid from Switzerland to the Group.

Non-controlling interests

The adjustment to embedded value to remove non-controlling interests from new business value is included here and it largely arose from the interests of non-controlling shareholders in Spain and Germany.

Foreign currency translation effects

Foreign currency translation effects represent the impact of adjusting values to end-of-period exchange rates. The strengthening of the U.S. dollar against other currencies reduced the U.S. dollar embedded value by USD 73 million.

7. Value of business in-force

Components of value of business in-force

in USD millions, as of June 30, 2012 and December 31, 2011

	2012				Value of business in-force	2011 Value of business in-force
	CE ¹	FC ²	TVFOG ³	CRNHR ⁴		
North America	2,689	(57)	(199)	(249)	2,185	2,208
Latin America	323	(21)	(3)	(24)	275	267
Europe	7,428	(486)	(903)	(546)	5,493	5,340
of which:						
<i>United Kingdom</i>	3,118	(64)	(113)	(113)	2,829	2,703
<i>Germany</i>	1,364	(345)	(483)	(185)	351	316
<i>Switzerland</i>	1,879	(22)	(117)	(168)	1,572	1,456
<i>Ireland</i>	805	(13)	(31)	(38)	722	726
<i>Spain</i>	(108)	(15)	(6)	(22)	(151)	(18)
<i>Rest of Europe</i>	370	(28)	(153)	(20)	170	157
Asia-Pacific and Middle East	1,787	(73)	(16)	(93)	1,606	1,512
Other	194	(5)	–	(12)	177	130
Global Life	12,421	(642)	(1,121)	(923)	9,735	9,457

¹ CE is the certainty equivalent value of business in-force.

² FC is the frictional cost.

³ TVFOG is the time value of financial options and guarantees including the application of a liquidity premium.

⁴ CRNHR is the cost of residual non-hedgeable risk (see Section 12 d) for further details).

Maturity profile of value of business in-force

The value in-force (VIF) maturity profile shows when the VIF profits are expected to emerge as free surplus. It does not include the release of required capital to free surplus which usually accompanies the emergence of the VIF profit. The VIF emergence is after frictional costs, cost of residual non-hedgeable risk and the time value of financial options and guarantees.

Maturity profile of value of business in-force

in USD millions, as of June 30, 2012 and December 31, 2011

	2012		2011	
	VIF	% of Total	VIF	% of Total
1 to 5 years	3,227	33%	3,049	32%
6 to 10 years	2,553	26%	2,393	25%
11 to 15 years	1,861	19%	1,765	19%
16 to 20 years	1,002	10%	998	11%
more than 20 years	1,092	11%	1,252	13%
Total	9,735	100%	9,457	100%

The VIF maturity profile shows that 33 percent of the VIF should emerge as free surplus in the first 5 years and 59 percent within the first 10 years.

Embedded value report *continued*

8. Reconciliation of IFRS shareholders' equity to embedded value

Reconciliation of Global Life IFRS shareholders' equity to embedded value	in USD billions, as of June 30, 2012	Total
	IFRS shareholders' net assets¹	16.1
	Less non-controlling interests ²	(0.9)
	IFRS shareholders' equity net of joint ventures and non-controlling interests	15.2
	Plus pension scheme liabilities ³	0.5
	Less intangible assets ⁴	(6.8)
	<i>Deferred acquisition costs and deferred origination costs</i>	(13.9)
	<i>Deferred front end fees</i>	5.8
	<i>Present value of profits of acquired insurance contracts</i>	(0.6)
	<i>Policyholder share of actuarial intangibles net of tax</i>	1.6
	<i>Tax on shareholder share of actuarial intangibles</i>	2.0
	<i>Goodwill</i>	(0.4)
	<i>Other intangibles</i>	(1.2)
	Valuation differences ⁵	(2.6)
	Embedded value shareholders' net assets⁶	6.4
	Value of business in force ⁷	9.7
	Embedded value	16.1

¹ Global Life balance sheet value not including businesses in Malaysia and Latin America described in Section 6.

² Includes Spanish and other non-controlling interests.

³ Since pension scheme liabilities are included in IFRS equity but not EV shareholders' net assets.

⁴ Actuarial intangibles (after allowance for tax and policyholder sharing), goodwill and other intangibles.

⁵ Unrealized gains/losses on investments, statutory vs IFRS reserving requirements.

⁶ EV shareholders' net assets net of non-controlling interests.

⁷ EV value of business in force.

9. Sensitivities

Sensitivities

in USD millions, as of June 30, 2012

	Change in embedded value	Change in new business value
Actual embedded value	16,098	424
Operating sensitivities		
10% increase in initial expenses	n/a	(6%)
10% decrease in maintenance expenses	4%	7%
10% increase in voluntary discontinuance rates	(4%)	(13%)
10% decrease in voluntary discontinuance rates	6%	18%
5% improvement in mortality and morbidity for assurances	3%	9%
5% improvement in mortality for annuities	(2%)	(1%)
Required capital set equal to minimum solvency capital	–	–
Economic sensitivities		
100 basis points increase in risk free yield curve	5%	16%
100 basis points decrease in risk free yield curve	(10%)	(37%)
10% fall in equity market values	(2%)	n/a
10% fall in property market values	(3%)	n/a
25% increase in implied volatilities for risk free yields	(2%)	(1%)
25% decrease in implied volatilities for risk free yields	2%	3%
25% increase in implied volatilities for equities and properties	(1%)	–
25% decrease in implied volatilities for equities and properties	1%	–

- Base for sensitivities is without liquidity premium.

- Changes in embedded value and new business value are calculated on the basis of no liquidity premium and end of period assumptions, reducing embedded value by USD 2,203 million and new business value by USD 49 million.

The key assumption changes represented by each of these sensitivities are given in Section 12 r).

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include the impact of assumption changes on the time value of financial options and guarantees. The 100 basis points decrease in risk free yield curve increases the value of some products, such as term assurance, with fixed future cash flows discounted at lower rates. This increase is offset by the reduction in the value of other products, such as those with profit sharing, due to the lower assumed investment returns on investment of net cash flows.

Embedded value report *continued*

10. Non-core life business

The Group has written life business in Zurich American Life Insurance Company and in its Centre operations, which are not managed by Global Life and are included in Non-core life businesses. The main products that have been written by these businesses were:

- variable annuity contracts that provide annuitants with guarantees related to minimum death and income benefits;
- disability business; and
- bank owned life insurance business.

The Group has estimated the embedded value of these businesses based on the same principles as for the Global Life business, including deductions for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risk, but using more approximate models.

Estimated
embedded value
of life businesses in
Non-Core Businesses

in USD billions, as of June 30, 2012 and December 31, 2011

	2012	2011
Shareholders' net assets	0.5	0.5
Value of business in-force	0.3	0.2
Embedded value	0.7	0.7

11. Group MCEV

The Group MCEV is presented in the following table as the Global Life covered business which is valued under the MCEV Principles and the non-covered businesses which are valued at the unadjusted IFRS net asset value. Non-covered businesses include the unadjusted IFRS net asset value of acquired businesses in Malaysia and Latin America, the non-core life businesses managed outside Global Life and all other Group businesses including General Insurance and Farmers.

Group MCEV	in USD billions, as of June 30, 2012	Covered	Non-covered	Total
		Business MCEV	business	Group MCEV
Opening Group MCEV		15.8	17.2	33.1
<i>Operating MCEV earnings¹</i>		0.8	1.6	2.4
<i>Non-operating MCEV earnings</i>		0.1	0.0	0.1
<i>Total MCEV Earnings</i>		0.9	1.6	2.5
<i>Other movements in IFRS net equity²</i>		(0.0)	0.6	0.6
<i>Adjustments³</i>		(0.6)	(2.2)	(2.8)
Closing Group MCEV		16.1	17.2	33.3

¹ For non-covered business this is set equal to the change in Net Income After Tax (NIAT) over the period.

² For non-covered business this is set equal to non-controlling interests and the change in Other Comprehensive Income (OCI) and unrealised gains and losses excluding the foreign currency translation adjustment over the period.

³ Adjustments refer to dividend and capital movements and foreign currency translation effects.

Embedded value report *continued*

12. Embedded value methodology

The Group has applied the Market Consistent Embedded Value (MCEV) Principles and Guidance issued by the European Insurance CFO Forum in October 2009, for its Embedded Value (EV) Report for the companies and businesses in its Global Life segment (the covered business). This report primarily relates to Global Life excluding the recently acquired businesses in Malaysia and Latin America, but information relating to the life business included in Non-core life businesses is given in Section 10 and to the total Group in Section 11. The embedded value methodology adopted by the Group is based on a "bottom-up" market consistent approach to allow explicitly for market risk. In particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and options and guarantees are valued using market consistent models calibrated to observable market prices. Where markets exhibit a limited capacity, the valuation is based on historical averages.

Embedded value represents the shareholders' interests in the entities included in Global Life as set out in the Group's Consolidated IFRS financial statements. Embedded value excludes any value from future new business.

All amounts shown in USD are rounded with the consequence that the rounded amounts may not add to the rounded total in all instances.

a) Covered business

Covered business includes all business written by companies that are included in the Global Life segment (excluding the recently acquired businesses in Malaysia and Latin America), unless otherwise stated. In particular:

- life and critical illness insurance;
- savings business (with profit, non-profit and unit-linked);
- pensions and annuity business; and
- long-term health and accident insurance.

For certain smaller companies in Global Life, no embedded value has been calculated but these companies have been included in the embedded value at their shareholders' net asset value, as calculated in accordance with the Group's IFRS accounting policies. The contribution from these companies to the embedded value is approximately 2 percent.

b) Reporting of embedded value

In line with the MCEV Principles, the embedded value is split between shareholders' net assets, including free surplus and required capital, and the value of business in-force.

The results are disclosed in a format that the Group considers to be appropriate for the market consistent methodology adopted.

c) Shareholders' net assets

Shareholders' net assets represent the market value of net assets held in respect of the covered business, and consists of the required capital and free surplus. The level of required capital reflects the amount of capital considered by the local Directors to be appropriate to manage the business. This would be set at least at the level equal to the regulatory required capital, at which the regulator would intervene to request a capital injection and in addition, for the main companies, an adequate buffer to cover short term volatilities in solvency due to financial and non-financial risks or to achieve the capital required to maintain the desired credit rating.

The free surplus comprises the market value of shareholders' net assets allocated to the covered business in excess of the assets backing the required capital.

In the UK, a dual capital regime exists with the second pillar currently more stringent than the first pillar. The first pillar is a solvency one basis. Under the second pillar basis the value of in-force is counted as an admissible asset with a subsequent risk charge. Under this basis, when the Group writes new business with an in-force value greater than the risk charge, the level of required capital decreases. Similarly, when in-force value emerges into shareholders' net assets, a portion of this release needs to be allocated to required capital to offset the now reduced value of the in-force asset.

This required capital impact is a feature of an economic capital mechanism which differs markedly from the current solvency one basis.

Shareholders' net assets are based on local statutory and regulatory accounting. Adjustments are made to the embedded value where appropriate, for example in respect of any unrealized gains attributable to shareholders. Any such adjustments are made consistently with the calculation of the value of business in-force.

d) Value of business in-force

The value of business in-force is the present value of future projected profits, distributable after tax to shareholders from the covered business. It is defined as the certainty equivalent value of business in-force less frictional costs, the time value of financial options and guarantees, and the cost of residual non-hedgeable risk. These components are explained below.

Certainty equivalent (CE) value is the value calculated using discount rates consistent with those applied to the underlying cash flows in the capital markets. It includes the intrinsic value but excludes the time value of financial options and guarantees which is allowed for separately, as described below.

Frictional costs (FC) reflect a deduction for the cost of holding shareholder capital. Under the Group's market consistent framework, the FC represents tax in respect of future investment income on total required capital plus investment management costs. In Germany, the policyholders' share of investment income on the capital is also included.

For the purpose of these calculations, required capital is assumed to run off in line with existing business.

The allowance for FC value is included both in the value of business in-force and in the new business value. For new business, FC is applied to the minimum solvency capital required to be held in respect of that business.

No allowance is made for "agency costs" as these are considered to be subjective and depend on the view of each shareholder.

Time value of financial options and guarantees (TVFOG) represents additional costs in excess of the intrinsic value of options and guarantees which are already allowed for in the CE value. These are based on the variability of investment returns which need to be allowed for explicitly under the MCEV Principles. The time value is calculated on a market consistent basis using stochastic modeling techniques, and after making allowance for expected management and policyholder behavior.

For products with significant guarantees, the time value has been calculated on a market consistent basis by deducting the average present value of shareholder cash flows using 1,000 stochastic economic simulations from the CE value (both for the value of business in-force and separately for new business value).

For most products, the average value has been calculated using Monte Carlo simulations. For a small number of products, the TVFOG has been derived using closed form solutions.

Where appropriate, the calculation of the TVFOG makes allowance for:

- dynamic actions that would be taken by management under different economic simulations, for example to implement a life business' investment strategy; and
- dynamic policyholder behavior, for example changes in surrender behavior as interest rates rise or fall, or take-up rates of guaranteed annuity options.

The **cost of residual non-hedgeable risk (CRNHR)** is an explicit deduction for non-hedgeable financial risks (non-hedgeable asset/liability management risks and reinsurance credit risk), and non-financial risks (mortality, persistency, expenses and operational risk). The CE value allows for best estimate shareholder cashflows. The CRNHR is largely an allowance for uncertainty in shareholder cashflows, and for risks which are not already considered in the CE value or the TVFOG, such as operational risk. Most residual non-hedgeable risks have a symmetric impact on embedded value apart from operational risk.

Embedded value report *continued*

CRNHR is calculated as a charge on the capital held for residual non-hedgeable risks. This is calculated according to Zurich's internal risk based capital model by applying 1 in 2000 shocks to the embedded value assumptions. To align with the MCEV Principles the risk based capital is scaled to a 99.5 percent confidence level by using empirical distributions where available, or by assuming probability distributions as appropriate.

The capital is projected over the lifetime of the business using appropriate risk drivers for each risk type. The present value of the risk capital is calculated by applying the swap curve as of the valuation date. The CRNHR allows for diversification across risk types and across geographical segments. This approach complies with all areas of the MCEV Principles except Guidance 9.7 which does not allow for diversification benefits between covered and non-covered business. The EV report does allow for diversification between covered and non-covered business, which is consistent with the management view of the business and adds an estimated USD 529 million to embedded value.

A 4 percent cost of capital charge has been applied to the diversified present value of non-hedgeable risk based capital.

e) New business

New business covers new contracts sold during the reporting period and includes recurring single premiums, new premiums written during the period on existing contracts and variations to premiums on existing contracts where these premiums and variations have not previously been assumed to be part of business in-force. Where recurring single premiums are projected over time to derive the corresponding new business value, they are treated as annual premium for the volume definition. Group Life business which is valued with a renewal assumption of the contracts is treated as annual premium.

The new business is valued at the point of sale. Explicit allowance is made for frictional costs, time value of financial options and guarantees, and CRNHR. New business value is valued using actual new business volumes, except in Germany. See Section 12 f) for details.

The value generated by new business written during the period is the present value of the projected stream of after tax distributable profits from that business.

In certain profit sharing funds, the new business written can affect the TVFOG for business written in prior years. This effect is taken into account in the new business value by valuing on a marginal approach, the difference between embedded value with and without new business. This captures the effect of cross-subsidies between in-force and new business due to, for example, different interest rate guarantees operating in a shared common pool of assets.

Quarterly new business is valued on a discrete basis. New business value is calculated separately for each quarter using assumptions, both operating and economic, as of the start of the relevant quarter. New business strain is also calculated on a quarterly discrete basis, meaning that it takes account only of cash flows during that quarter and makes no allowance for any subsequent reduction in strain during the remainder of the year. Once calculated, the new business value will not change in local currency terms.

f) Asset and liability data

The majority of the Group's embedded value has been calculated using a "hard close" approach. This means that all asset and liability data reflect the actual position as of the valuation date.

Germany has followed an approach where liability model points were set up in advance, using the structure of a previous run, and then projected to valuation date values by scaling to match the expected balance sheet figures. The new business model points are determined quarterly. For each quarter new business model points are scaled to the expected APE in the quarter.

g) Market consistent discounting

The Group has adopted a "bottom-up" market consistent approach for the projection and discounting of future cash flows in the calculation of the embedded value. As a result, the risks inherent in the cash flows are allowed for in a way that is consistent with the way the market is expected to allow for such risks.

In principle, this method values each cash flow using a discount rate consistent with that applied to such a cash flow in the capital markets. For example, an equity cash flow is valued using an equity risk discount rate, and a debt security cash flow is valued using a debt security discount rate. If a higher return is assumed for equities, the equity cash flow is discounted at this higher rate.

In practice, the Group has applied a computational method known as a "risk neutral" approach. This involves projecting the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free rate.

The risk free yield curve assumptions are based on the swap curve in each major currency (U.S. dollars, euro, British pounds and Swiss francs). For liabilities where payouts are either independent or move linearly with markets, deterministic techniques (referred to as "certainty equivalent") have been used. In such cases, the projection and discounting are based on the same risk free yield curve.

h) Economic scenario generator

All operations use actual yield curves observable as at the valuation date for the calculation of the certainty equivalent value of business in-force.

The calculations of the TVFOG is based on stochastic simulations using an economic scenario generator provided by Barrie & Hibbert. The outputs ("simulations") have been calibrated to conform to the economic parameters specified by the Group.

The simulations used for calculation of TVFOG reflect the actual yield curves and implied volatilities observable as at the valuation date.

Simulations are produced for the economies in the U.S., the UK, Switzerland and the eurozone. In each economic area, risk free nominal interest rates are modeled using a LIBOR market model. The excess return on other asset classes relative to the total returns on risk free assets are then modeled using a multi-factor lognormal model. Hong Kong uses U.S. dollar simulations as their principal liabilities are U.S. dollar-denominated. Chile uses closed form solutions rather than simulations. The other operations not mentioned above have no significant options and guarantees. Further details are set out under "Economic assumptions" in Section 13.

i) Corporate Center costs

Corporate Center costs that relate to covered business have been allocated to the relevant countries and included in the projected expenses.

j) Holding companies

Holding companies that are allocated to Global Life have been consolidated in the embedded value at their local statutory net asset value. Related expenses are small and so have been excluded from the projection assumptions. Holding companies outside Global Life are not included in the embedded value of the covered business.

Embedded value report *continued*

k) Consolidation adjustments

Where a reinsurance arrangement exists between two life companies within Global Life, the value of the reinsurance is shown in the embedded value of the ceding company.

Embedded value is shown net of non-controlling interests. Where the Group has a controlling interest in a subsidiary company, the new business value and the premium information are shown gross of non-controlling interests. The non-controlled share of new business value is eliminated through "Non-controlling interests".

l) Debt

Where a loan exists between a company in Global Life and a Group company outside Global Life, the loan is valued for embedded value purposes at the same value as that included outside Global Life under IFRS.

m) "Look through" principle – service companies

There are some companies within Global Life that provide administration and distribution services. These are valued on a "look through" basis. The results do not include any Group service companies outside Global Life.

In the UK, a multi-tie distribution company (Openwork) is included in the embedded value on a "look through" basis. After allowance for certain one-off expenses, profits and losses are attributed to new business value. Certain future revenue streams, mainly renewal commissions on business sold, are discounted and contribute to the new business value and to the value of business in-force.

In Germany, the majority of distribution and administration is provided by service companies. These are valued on a "look through" basis. These companies also provide limited services to companies outside Global Life. The value of business in-force and new business value reflect the services provided to companies within Global Life. Net asset value consists, however, of the full statutory equity of these service companies.

In Switzerland, an investment management company provides asset management services to pension schemes written in foundations and other pension funds. The present value of the net asset management fees, after tax, is included in the embedded value and the new business value.

n) Employee pension schemes

Actuarial gains and losses arising from defined benefit pension and other defined benefit post-retirement plans are recognized in full in the period in which they occur and are presented on a separate line in the statement of comprehensive income in the Group's consolidated financial statements, with a liability recognized for employee benefit deficits under IAS 19. This adjustment has not been made in the detailed embedded value described in this embedded value report. If the adjustment had been made the embedded value at the valuation date would have been lower by USD 526 million. The actuarial and economic assumptions used for this adjustment are consistent with those used for the equivalent allowance made in the Group's Consolidated financial statements.

As previously reported, expense assumptions for each life business include expected pension scheme costs in respect of future service entitlements.

o) Employee share options

The costs of share options granted to employees are not included in the embedded value, other than to the extent that they are allowed for in the local statutory accounts upon which the shareholders' net assets are based. Further information on the costs of share options is given in the Group's consolidated financial statements.

p) Change in legislation or solvency regime

The impacts of changes in legislation or solvency regimes are included in economic variance for the analysis of movement.

q) Translation to Group presentation currency

To align embedded value reporting with the Group's consolidated IFRS financial statements, relevant results have been translated to the Group presentation currency, U.S. dollar, using average exchange rates for the period. This applies to new business value, new business volumes (APE and PVNBP) for the current period and comparative figures. This approach has also been applied to the analysis of movement. Valuations as at a specified date are translated at end-of-period exchange rates.

The rates can be found in note 1 of the unaudited Consolidated financial statements as of June 30, 2012.

r) Sensitivities

The key assumption changes represented by each of the sensitivities in Section 9 are as follows:

Operating sensitivities

A 10 percent increase in initial expenses was considered for new business values only.

A 10 percent decrease in maintenance expenses means that, for example, a base assumption of USD 30 per annum would decrease to USD 27 per annum.

A 10 percent decrease in voluntary discontinuance rates means that, for example, a base assumption of 5 percent per annum would decrease to 4.5 percent per annum.

A 5 percent improvement in mortality and morbidity assumptions for assurances means that, for example, if the base mortality assumption for assurances was 90 percent of a particular table, this would decrease to 85.5 percent.

A 5 percent improvement in mortality assumptions for annuities means that, for example, if the base mortality assumption for annuities was 90 percent of a particular table, this would decrease to 85.5 percent.

Required Capital set to Minimum Solvency Capital means that frictional costs are applied to minimum solvency capital only and frictional costs on excess solvency capital are released.

Economic sensitivities

A 100 basis points increase and decrease (subject to a minimum of zero percent) was applied to the risk free yield curve across all durations.

A 10 percent fall in equity and property market values was assessed for embedded value only.

A 25 percent increase in implied risk free volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

A 25 percent increase in implied equity and property volatilities means that, for example, a volatility of 20 percent per annum would increase to 25 percent per annum.

In each sensitivity calculation, all other assumptions remain unchanged except where they are directly affected by the revised conditions. The results include any impact of the assumption changes on the time value of financial options and guarantees.

Embedded value report *continued*

13. Embedded value assumptions

Projections of future shareholder cash flows expected to emerge from covered business and for new business are determined using best estimate operating assumptions. These assumptions, including mortality, morbidity, persistency and expenses, reflect recent experience and are actively reviewed. Allowance is made for future improvements in annuitant mortality based on experience and externally published data. Favorable changes in operating efficiency are not anticipated in the assumptions – in particular for expenses and persistency.

Future economic assumptions, for example, investment returns and inflation, are based on period end conditions and assumed risk discount rates are consistent with these. For new business, the future economic (and operating) assumptions are based on conditions at the start of the relevant quarter.

Details of the economic assumptions for the major economies in which Global Life carries out business can be downloaded in a spreadsheet from the Investors section of www.zurich.com.

a) Economic assumptions

Market consistent framework

The Group has adopted a computational method known as “risk neutral.” With this method the key economic assumptions are:

- risk free rates;
- implied volatilities of different assets; and,
- correlations between different asset returns.

Expected asset returns in excess of the risk free rate have no bearing on the calculated embedded value other than in the expected return used for the analysis of embedded value earnings. The expected return for equities comprises an equity risk premium added to the start of period one year swap rate. The expected return on corporate bonds is equal to the start of period one year swap rate plus a risk premium estimated by comparing the market yield on corporate bonds with the swap rates for equivalent durations. In addition, a reduction must be made to the yield to allow for the expected level of defaults.

Choice of “risk free yield curve”

The risk free yield curve is derived from mid-market swap rates applicable to each economy at the valuation date. These curves were used to extract forward reinvestment yields that are used for all asset classes. The yield curves are consistent with the assumptions used by investment banks to derive their option prices and their use ensures consistency with the derivation of implied volatilities. They also have the advantage of being available for most of the markets in which the Group operates. Domestic yield curves are used by businesses in other countries, except Hong Kong and Argentina which use the U.S. dollar, as their liabilities are principally U.S. dollar-dominated.

Implied asset volatility and correlations

The Group’s embedded value model is based on market consistent assumptions. Interest volatility is derived from the implied volatility of interest rate swaptions. Swaption implied volatilities vary both by the term of the option and also the term of the underlying swap contract, a fact that is reflected in the economic scenarios. The equity volatilities are based on at-the-money forward European options on capital indices, consistent with traded options in the market. Volatility of property investments is derived from relevant historical return data for each modeled economy. Assumptions for long-term equity volatility and long-term correlations between equity, property and bond indices are prepared with reference to historical analysis.

Inflation

Inflation assumptions have been derived from the yields on index linked government bonds relative to the corresponding nominal government yield curve, where such index linked government bonds exist. Where appropriate, allowance has been made for expense inflation to exceed the assumed level of price inflation reflecting the contribution of salary related expenses to life company expenses. In Switzerland, no index linked government bonds exist, so reference has been made to the Swiss National Bank’s published target of price stability.

Risk discount rate

Under the “risk neutral” approach, risk discount rates are based on the same risk free yield curves as those used to project the investment return.

For stochastic modeling, the risk discount rates are simulation specific and also vary by calendar year consistently with the projected risk free yields in each simulation.

Liquidity premiums

The CFO Forum engaged Barrie & Hibbert who estimated a liquidity premium proxy to be equal to 50 percent times the (credit spread over swaps less 40 basis points) where credit spreads over swaps are equal to the credit spread on a representative corporate bond index less the swap rate for each particular currency.

The Group applies liquidity premium in the operating currencies of U.S. dollar, euro, British pound and Swiss franc in its embedded value.

The liquidity premium is applied to the following lines of business:

- 100 percent for annuities;
- 75 percent for contracts with participating features, universal life contracts and fixed interest annuities in the U.S.;
- 0 percent for all other lines of business.

The liquidity premium is also applied to the TVFOG as of December 31, 2011. All sensitivities in the report relate to the base yield curve with no liquidity premium.

"Expected return" for the analysis of embedded value earnings – investment return assumptions

The expected return for the analysis of embedded value earnings is based on a projection from the start of period to end of period. This requires assumptions regarding the investment returns expected to be achieved over the period on different asset classes. The investment return assumptions (for this purpose only) are based on the "real world" returns expected by the Group. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for the risk underlying each asset. Any under or over performance will be reported through economic variance.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets, less an allowance for defaults where appropriate, together with an adjustment to reflect the change over the period implied in the yield curve assumptions.

For equity assets for units where there is a substantial equity allocation, the investment return assumption is based on the long term "real world" expected return allowing for reversion to the mean over a period of five years. For equity assets for units without a material equity allocation the investment return assumption is based on the one year swap rate at the start of period plus a margin to reflect the additional risk associated with investment in this asset class.

For property assets, the investment return assumptions are based on the one year swap rate at the beginning of period plus a margin to reflect the additional risk associated with investment in this asset class.

These assumptions have been set by asset class and separately for each sub-fund in each life business in order to best reflect the actual assets held.

"Return on opening embedded value" (as shown in the Embedded value key results)

The return on opening embedded value is calculated as the sum of the annualized new business value, annualized expected contributions, economic variances for the year to date and operating and non-operating variances for the year to date divided by the opening embedded value less the start of period dividend and capital movements.

Participating business

Rates of future bonus or crediting rates have been set at levels consistent with the risk neutral investment return assumptions and current bonus plans. In the UK, bonus rates have been set so as to exhaust any remaining assets in the relevant long-term funds. In certain scenarios shareholder injections may be required to meet existing guaranteed benefits and this additional cost is included in the TVFOG.

In other European life businesses and in the U.S., bonuses have been set to be consistent with the investment return assumptions and with the book value approach used by these life businesses in practice. Existing practice, contractual and regulatory requirements as well as the reasonable expectations of policyholders are considered in setting bonuses.

Embedded value report *continued*

Taxation

Current tax legislation and rates have been assumed to continue unaltered, except where changes in future tax rates or practices have been announced.

b) Operating assumptions

Demographic assumptions

The assumed future mortality, morbidity and lapse rates have been derived from recent operating experience and relevant industry statistics. Where operating experience or industry statistics are limited, the assumptions are derived from a best estimate of future developments and are subject to regular review as more experience emerges. Where appropriate, surrender and option take-up rate assumptions that vary according to the investment simulation under consideration have been used, based on an assessment of likely policyholder behavior.

The term over which group protection business policies are valued has been changed from the term up to the date of the first renewal option under the contract to a term equal to the period over which the policy is expected to be retained, i.e. the expected life time value of the policy. The life time value is only included for those businesses where reliable data exists so that renewal rates can be reasonably assessed and/or where renewals are not based on regular re-negotiations. Over years 2011 and 2012, and for smaller blocks of business beyond 2012, the life time value is included in new business when the policies renew such that this period will show an elevated level of new business value for this time period. After the in-force book has fully renewed the new business value will only be based on new policies and extraordinary premium increases or contract expansions.

Expense assumptions

Management expenses have been analyzed between expenses related to acquisition of new business, the maintenance of in-force business and, where appropriate, one-off project costs. Future expense assumptions allow for expected levels of maintenance expenses. In addition, Corporate Center expenses relating to covered business have been allocated to business units and are reflected in assumed future expenses.

The maintenance expense assumptions allow for the expected cost of providing future service benefits in respect of the Group staff pension schemes. An adjustment to the embedded value is noted in Section 12 n) for pension scheme liabilities under IAS 19 and no allowance is made in the expense assumptions for any contributions as a result of past service benefits.

No allowance has been made for future productivity improvements in the expense assumptions.

Where service companies have been valued on a look through basis, the value of profits or losses arising from these services have been included in the embedded value and new business value.

In countries where significant development work is performed these are shown under "Development Expenses".

The restart of business in Luxembourg is treated as a start-up operation with acquisition and maintenance expenses set at expected medium term levels. Any actual expenses incurred in excess of policy allowances is treated as an expense overrun and shown as an expense experience variation.

c) Dynamic decisions

To reflect more realistically the outcome of stochastic simulations, the assumptions for each simulation make allowance for the behaviors of policyholders and management actions in response to the investment conditions modeled.

In many life businesses, policyholders can exercise an option against the life company in certain circumstances, such as to surrender a policy. This leads to an increase in the assumed lapse rates when interest rates rise (or a corresponding reduction when interest rates fall). This dynamic effect in relation to lapse rates has been allowed for in the stochastic models.

The stochastic models allow, where appropriate, for management actions to change investment strategy in response to market conditions

Appendix

Embedded value results Global Life, by region

in USD millions, for the six months ended June 30

	North America	
	2012	2011
Embedded value information:		
Opening embedded value	2,780	2,818
Dividends and capital movements start of period	(109)	(36)
New business value Global Life	50	22
Expected contribution	86	37
Operating experience variances	19	(7)
Operating assumption changes	15	4
Other operating variances	(195)	24
Operating earnings	(25)	80
Economic variances	33	42
Other non-operating variances	6	(2)
Embedded value earnings	15	120
Non-controlling interests	-	-
Foreign currency translation effects	-	-
Closing embedded value	2,685	2,901
New business information:		
Annual premiums	50	42
Single premiums	112	78
Annual premium equivalent (APE)	62	50
Present value of new business premiums (PVNBP)	611	442
New business value	50	22
New business margin (% of APE)	81.0%	44.1%
New business margin (% of PVNBP)	8.2%	5.0%
Returns		
Expected return	6.5%	2.7%
Operating return	4.2%	5.0%
Embedded value return	5.6%	6.4%

	Latin America		Europe		Asia-Pacific and Middle East		Other		Global Life	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	683	631	9,701	10,334	2,465	2,548	217	142	15,846	16,472
	(5)	(14)	(365)	(475)	(11)	(7)	(45)	(3)	(534)	(535)
	37	33	214	269	60	73	63	114	424	511
	20	20	347	286	50	57	1	–	504	401
	(38)	(27)	(55)	(30)	(30)	(25)	(9)	(15)	(114)	(104)
	2	29	20	(21)	(6)	32	(6)	3	25	47
	(32)	(17)	142	(170)	4	(27)	51	(5)	(31)	(194)
	(12)	38	669	334	77	110	99	97	808	660
	(34)	(13)	45	238	45	(8)	(4)	(3)	86	255
	1	3	(10)	37	(17)	(29)	6	(2)	(13)	7
	(45)	28	705	609	106	74	101	92	882	923
	(1)	–	(21)	(23)	–	–	–	–	(22)	(24)
	10	2	(83)	751	4	70	(3)	21	(73)	844
	643	646	9,936	11,196	2,564	2,685	270	252	16,098	17,681
	131	112	679	671	202	249	49	71	1,111	1,144
	234	261	5,809	6,511	398	579	270	117	6,822	7,547
	154	138	1,260	1,322	241	307	76	83	1,793	1,899
	714	599	12,167	12,285	1,597	1,711	774	594	15,863	15,631
	37	33	214	269	60	73	63	114	424	511
	23.9%	23.6%	17.0%	20.4%	24.9%	23.8%	83.0%	138.7%	23.6%	26.9%
	5.1%	5.4%	1.8%	2.2%	3.8%	4.3%	8.1%	19.3%	2.7%	3.3%
	5.9%	6.6%	7.4%	5.8%	4.1%	4.5%	1.0%	0.5%	6.6%	5.0%
	6.6%	14.8%	13.2%	9.0%	7.6%	9.5%	94.5%	153.0%	11.3%	9.9%
	1.8%	13.1%	13.6%	11.8%	8.8%	8.0%	95.9%	149.4%	11.8%	11.5%

Appendix *continued*Embedded value
results
Europe

in USD millions, for the six months ended June 30

	United Kingdom		Germany	
	2012	2011	2012	2011
Embedded value information:				
Opening embedded value	3,692	3,633	2,058	2,047
Dividends and capital movements start of period	6	(346)	(1)	31
New business value Global Life	98	73	19	82
Expected contribution	79	58	113	96
Operating experience variances	(28)	(6)	–	(1)
Operating assumption changes	(42)	(36)	55	42
Other operating variances	100	(109)	(65)	30
Operating earnings	208	(20)	123	249
Economic variances	(107)	42	115	268
Other non-operating variances	10	36	–	–
Embedded value earnings	111	58	237	516
Non-controlling interests	–	–	(1)	(2)
Foreign currency translation effects	36	112	(53)	192
Closing embedded value	3,845	3,457	2,241	2,785
New business information:				
Annual premiums	282	225	186	239
Single premiums	3,143	3,114	383	345
Annual premium equivalent (APE)	596	536	224	274
Present value of new business premiums (PVNBP)	5,851	4,969	2,129	2,718
New business value	98	73	19	82
New business margin (% of APE)	16.5%	13.7%	8.3%	30.1%
New business margin (% of PVNBP)	1.7%	1.5%	0.9%	3.0%
Returns				
Expected return	4.3%	3.5%	11.0%	9.2%
Operating return	10.4%	3.4%	12.4%	20.5%
Embedded value return	7.8%	5.8%	18.0%	33.4%

Europe										
Switzerland		Ireland		Spain		Rest of Europe		Europe total		
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	
2,126	2,323	1,156	1,256	164	279	506	794	9,701	10,334	
(355)	(158)	13	–	(19)	(12)	(8)	11	(365)	(475)	
7	13	31	33	46	50	12	18	214	269	
91	64	10	13	32	22	21	33	347	286	
–	(4)	(36)	(19)	8	1	1	–	(55)	(30)	
–	–	–	1	9	(16)	(1)	(11)	20	(21)	
79	(54)	(10)	(47)	36	21	2	(10)	142	(170)	
178	18	(5)	(20)	131	77	35	30	669	334	
71	110	27	(50)	(152)	(7)	92	(125)	45	238	
(22)	(22)	–	–	(1)	24	4	(1)	(10)	37	
226	106	22	(70)	(22)	94	131	(95)	705	609	
–	–	–	–	(21)	(21)	–	–	(21)	(23)	
(22)	253	(27)	104	(2)	26	(14)	64	(83)	751	
1,974	2,524	1,163	1,291	99	365	614	774	9,936	11,196	
72	44	57	68	33	43	50	52	679	671	
483	312	1,060	1,121	463	1,136	278	483	5,809	6,511	
120	75	163	181	79	156	78	100	1,260	1,322	
1,450	810	1,373	1,481	730	1,488	634	819	12,167	12,285	
7	13	31	33	46	50	12	18	214	269	
6.2%	17.4%	19.2%	18.3%	57.8%	31.7%	15.8%	17.9%	17.0%	20.4%	
0.5%	1.6%	2.3%	2.2%	6.3%	3.3%	1.9%	2.2%	1.8%	2.2%	
10.3%	5.9%	1.8%	2.1%	44.2%	16.4%	8.5%	8.2%	7.4%	5.8%	
15.6%	4.4%	3.1%	2.1%	144.2%	55.5%	13.7%	10.1%	13.2%	9.0%	
18.4%	8.5%	5.4%	(1.9%)	38.4%	61.8%	33.0%	(5.5%)	13.6%	11.8%	

Statement by Directors

Statement by Directors

This embedded value report has been prepared in all material respects in accordance with the Market Consistent Embedded Value Principles and Guidance issued by the European Insurance CFO Forum in October 2009.

The methodology and assumptions underlying the report are described in Sections 12 and 13.

Auditor's report on embedded value

Report to the Board of Directors of
Zurich Insurance Group Ltd
Zurich

Independent assurance report

We have performed a limited assurance engagement on Zurich Insurance Group Ltd's Embedded Value Report ("EV Report") for the half year ended June 30, 2012, including compliance of the applied methodology in accordance with the Market Consistent Embedded Value ("MCEV") Principles and Guidance issued by the European Insurance CFO Forum, as described on pages 114 to 119, the consistency of application and the reasonableness of the assumptions used.

The Board of Directors is responsible for the preparation of the EV Report, including the applied methodology and the assumptions used. Our responsibility is to provide conclusions on the subject matter based on our work.

Our limited assurance engagement was carried out in accordance with International Standard on Assurance Engagements (ISAE 3000). This standard requires that we comply with ethical requirements and plan and perform the engagement to obtain limited assurance on the subject matter. In our engagement, we performed analytical procedures to assess whether the methodology as applied by Zurich Insurance Group Ltd is in accordance with the MCEV Principles and Guidance and the assumptions used are reasonable. In addition we performed procedures to assess the consistent application of the methodology. We did not carry out an audit or review of the EV Report or of the models or of the underlying data.

Based on our work described in this report, nothing has come to our attention which indicates that the methodology as applied by Zurich Insurance Group Ltd does not comply with the MCEV Principles and Guidance (as described on pages 114 to 119) or has not been implemented consistently, or the assumptions determined by the Zurich Insurance Group Ltd are not reasonable to derive the information included in the EV Report, in all material respects.

PricewaterhouseCoopers AG

Richard Burger
Audit expert

Stephen O'Hearn
Global relationship Partner

Zurich, August 15, 2012

Shareholder information

Contents

Registered share data	131
Financial calendar	132
Contact information	132

Zurich Insurance Group Ltd registered share data

Key indicators

	06/30/2012	06/30/2011
Number of shares issued	147,385,822	146,586,896
Number of dividend-bearing shares ¹	147,385,822	146,586,896
Market capitalization (in CHF millions at end of period)	31,467	31,164
Authorized capital, number of shares	10,000,000	10,000,000
Contingent capital, number of shares	13,909,437	14,708,363

¹ Treasury shares are not entitled to dividends.

Per share data

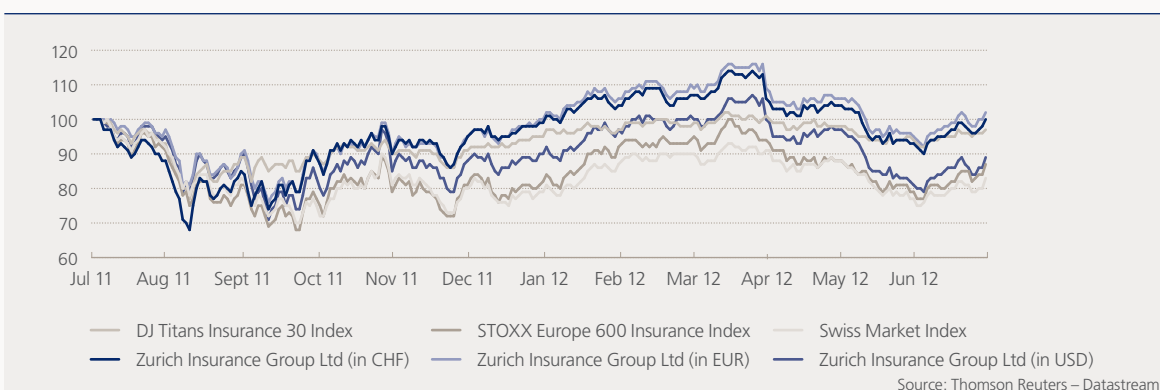
in CHF	06/30/2012	06/30/2011
Gross dividend	17.00 ¹	17.00 ²
Basic earnings per share	14.06	12.21
Diluted earnings per share	13.99	12.11
Nominal value per share	0.10	0.10
Price at end of period	213.50	212.60
Price period high	244.80	274.50
Price period low	193.10	204.90

¹ Gross dividend per registered share; payment date was from April 5, 2012

² Gross dividend per registered share; payment date was as from April 7, 2011.

Zurich share performance (indexed) over one year, ending June 2012

in %



Shareholder information *continued*

Financial calendar

Report for the nine months to
September 30, 2012
November 15, 2012

Report for the three months to
March 31, 2013
May 16, 2013

Investors' Day
November 29, 2012

Half Year Results Report 2013
August 15, 2013

Annual Results Reporting 2012
February 14, 2013

Report for the nine months to
September 30, 2013
November 14, 2013

Annual General Meeting 2013
April 4, 2013

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American Depositary Receipts

Zurich Insurance Group Ltd has an
American Depositary Receipt program with
The Bank of New York Mellon (BNYM).
For information relating to an ADR account,
please contact BNY Mellon's Shareowner
Services in the USA on +1-888-BNY-ADRS
or outside the USA on +1 201 680 6825
or by email to shrrelations@bnymellon.com
General information on the company's
ADR program can be obtained
from The Bank of New York Mellon
at www.adrbnymellon.com

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It should be noted that past performance is not a guide to future performance. Please also note that interim results are not necessarily indicative of full year results.

Persons requiring advice should consult an independent advisor.

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The Half Year Report is published in English.

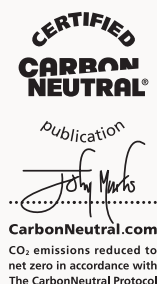
Design by Addison, www.addison.co.uk

Production by Multimedia Solutions AG, Zurich, Switzerland

Printed on Amadeus 50 Gloss paper.

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Printed mid August 2012 by Pureprint Group Limited – UK ISO 14001, FSC certified and CarbonNeutral® – using their **pureprint** and **alcofree** environmental print technology; vegetable inks were used throughout.



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47623-1208

